

EXPORT-IMPORT BANK PROPOSAL OF CREDIT TO BRAZIL AND MEXICO

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

LOAN GUARANTEES AND INSURANCE OF \$1.5 BILLION FOR BRAZIL,
AND \$500 MILLION TO ASSIST THE GOVERNMENT OF MEXICO IN THE
PURCHASE OF AND EXPORT TO MEXICO, GOODS AND SERVICES OF
U.S. COMMODITIES

SEPTEMBER 14, 1983

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EXPORT-IMPORT BANK'S PROPOSAL TO OFFER A LINE OF CREDIT TO BRAZIL AND MEXICO

WEDNESDAY, SEPTEMBER 14, 1983

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL, FI-
NANCE AND MONETARY POLICY,

Washington, D.C.

The subcommittee met at 2:30 p.m., in room SD-538, Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Gorton, Mattingly, Proxmire, and Sasser.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Our hearing will come to order.

As this subcommittee is well aware, the Export-Import Bank plays an important part in supporting U.S. exports. It makes the difference whether U.S. exporters, many of whom represent our most vital high technology industries, win contracts over foreign competition. The Eximbank has a key role in our Nation's defense against unfair foreign export competition.

The Senate will soon be considering the provision of the Eximbank charter which clarifies congressional intent that the Bank play an aggressive role in this competition.

Today we are holding the hearing specifically at the initiative and the request of Senator Proxmire to review the notifications sent by Mr. Draper of the Bank to the President of the Senate, dated August 17, describing the two facilities, one in the amount of \$1.5 billion for Brazil, the other in the amount of \$500 million to assist the Government of Mexico in the purchase and export to Mexico of goods and services of U.S. manufacturing origin.

A number of questions have arisen about these proposed facilities, and the purpose of this hearing is to examine those questions.

So that we may proceed with this hearing as quickly as possible, I will put my entire statement in the record.

The Export-Import Bank plays an important part in U.S. export policy. It can make the difference in whether U.S. exporters, many of whom represent our most vital high technology industries, win contracts over foreign competition. In this role the Eximbank is our Nation's defense against unfair foreign export credit competition. The Senate will soon be considering the revision of the Eximbank charter which clarifies congressional intent that the Bank play an aggressive role in this competition.

The Eximbank, however, was created to play another equally important role. The creation of the Bank in 1945 was motivated by the desire to provide a governmental institution to supplement the private credit market, to provide credit which commercial banks were unwilling to provide because of the risks involved. This credit supplement played a vital role in the recovery of the world from the devastation of World War II.

Recently, the Bank announced a \$2 billion guarantee and insurance facility for Mexico and Brazil similar in its concept to the role which Eximbank played in the immediate postwar era. The \$2 billion facility would be made available to underwrite trade to these nations which have been experiencing the withdrawal of their traditional sources of trade financing as a result of their recent balance-of-payments problems. The new Eximbank line of credit and insurance is designed to induce the private banks to reestablish their trade financing roles with Mexico and Brazil. In this way specific U.S. exports, which might otherwise be lost to foreign competition, or might not go forward at all, would be able to obtain financing. This program is directly tied to U.S. exports and in that way complements and enhances the International Monetary Fund adjustment program. But importantly, U.S. companies would directly benefit, and U.S. jobs would be preserved.

When we recall that Mexico is our third largest export market and that Brazil is the world's ninth largest economy, it should be clear that the United States has a very direct and significant interest in the facilitation of trade with these two nations. Nonetheless, with a line of credit of the magnitude which has been proposed, this committee has oversight responsibility and a clear interest in how this proposal ties into the traditional role as well as its relevance to current U.S. export policy and foreign policy interests. I would expect that our distinguished witnesses would address themselves to those questions.

There have also been questions raised by some as to the Eximbank's authority to offer this facility under its charter. This hearing will address itself not only to the wisdom of the proposed policy but also to its legality. I am sure that our witnesses, particularly Chairman Draper, will be prepared to explain how the proposed facility relates to Eximbank's traditional role and to its charter.

The Chair would note that Mexico and Brazil do reflect very vital foreign policy interests of the United States. Mexico is our third largest export market. It is on our border. Brazil is the world's ninth largest economy.

It should be clear to everyone that this country has a direct and significant interest in the facilitation of U.S. trade with these two nations, but at the same time the line of credits that are proposed are of such a magnitude that this committee, having oversight responsibility and a clear interest in how this proposal works, has an additional role, as well of examining its relevance to current U.S. export policy and its implications for that policy.

Before I call on Mr. Olmer, Mr. Leland, and Mr. Draper, I will turn to the distinguished ranking minority member of the committee, Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Chairman, I want to commend you for holding these hearings on the proposal for Export-Import Bank to create a \$1.5 billion loan guarantee facility for Brazil and \$500 million facility for Mexico as announced in the Bank's letter to the Congress, dated August 17.

I think that these proposals raise serious questions as to whether general guarantees are an appropriate use of the Bank's resources, whether the Bank is following proper budgetary procedure in attempting to record the entire guaranteed commitment under its 1983 guarantee authority, about to expire in 2 weeks, and whether the Bank notification to the Congress contained all the information required by law.

I expressed these concerns in a letter to the Bank dated August 23. I must say, however, that the Bank's reply of September 1 raises even more questions.

In that letter the Bank makes the astonishing statement that it believes it was not legally required to have notified the Congress at all, as required under section 2(b)(3) of the Export-Import Bank Act.

I find this astonishing, since its earlier statement to the Congress specifically indicated that the notification was being submitted pursuant to section 2(b)(3) of the Export-Import Bank Act. That section requires the Bank to notify Congress in advance whenever it is planning approval of a loan guarantee of \$100 million or more.

How can an agency acknowledge that it is submitting a statement pursuant to law and then later assert that it is really not pursuant to the law? Clearly one or the other statement must be true, but not both.

In reaching the conclusion that the Brazilian and Mexican guarantees are not subject to congressional prenotification, the Bank argues that it represents numerous transactions, some with contract values as little as a few thousand dollars.

This being the case, how can the Bank then legally charge all of the guarantees against its 1983 guarantee authority when the specific transactions will not occur until fiscal year 1984?

The Bank's reasoning does not exactly inspire confidence in the way it discharges its business.

I've also asked whether the proposed facilities are really in keeping with the primary purpose of the Bank, which is to assist U.S. exports, or whether its essential purpose is to assist the Governments of Mexico or Brazil to resolve their balance-of-payments difficulties.

If the primary purpose of the facility is to provide balance-of-payments financing, it would seem the aid would more properly be channeled to the International Monetary Fund. Unfortunately, the limited information supplied by the Bank makes it difficult to determine exactly what is the primary purpose of the facility or how it will work.

Mr. Chairman, I agree with you wholeheartedly that both Mexico and Brazil are very, very important countries. As you say, Mexico is right on our border.

As you know, I strongly supported you in a controversial proposal to provide \$8 billion to the International Monetary Fund. I am very hopeful that that will somehow get through the House, although it obviously is in some difficulty.

It seems to me that this action could seriously compromise the possibility of getting the IMF bill adopted.

Under these circumstances we should keep in mind the fact that the IMF quota increase should be much easier for Members of Congress to vote for. After all, it's providing colossal leverage. For every dollar we put up, other countries put up four.

For all these reasons I think that this hearing you called, Mr. Chairman, is most appropriate, and I hope as we go through these hearings we will get better answers to these questions.

I want to thank you again for convening this hearing.

Senator HEINZ. Thank you, Senator Proxmire.

Before I call on Senator Mattingly, let me just observe that I am deeply in debt to Senator Proxmire for his help and support on the IMF authorization.

I would also add that in order for us to send to the House, or for that matter to the Senate, a conference report on the International Monetary Fund, the Senate must consider favorably the Export-Import Bank authorization which has been reported and which we hope to be able to call up, at least the majority leader informs us, this week on the Senate floor. We cannot go to conference with the House until we have done so, because the House has included the Eximbank authorization in its International Monetary Fund bill. We would therefore be placed in an impossible parliamentary situation. Therefore, if we do not act soon on Eximbank we will throw the entire IMF operation, both in terms of our commitment and our ability to meet it as well as the IMF's ability to meet its commitment, into very serious jeopardy.

So it is my hope, Senator Proxmire, that this hearing will give us the answers that you and other members of the committee seek, and that it will therefore allow us to move ahead without delay in considering the Eximbank bill which has been reported by the committee. Our failure to do that will result in a collapse of the IMF legislation, which is something neither you nor I want to see.

I thank you.

Senator Mattingly.

OPENING STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. Thank you, Mr. Chairman.

I would first like to say I support the activity of the U.S. Export-Import Bank, which is to finance and facilitate U.S. exports. I believe a key factor to increasing American exports is by offering more competitive official export financing.

I commend and support the efforts of the chairman of the subcommittee, Senator Heinz, to make the Eximbank more competitive in its financing.

I am anxious to hear from the witnesses today to further understand the reasons and the motivation of the administration to extend financial assistance in a total amount of \$2 billion to Brazil

and Mexico. The total amount of these loans constitutes a quarter of the Bank's loan guarantee authority for 1983.

I believe the timing of these loans could not be worse for the following reasons:

One, the whole debate in Congress, over a U.S. quota increase to the IMF, is intensifying, while we read daily about the inability of Brazil, with an outstanding debt of almost \$90 billion, to repay IMF loans. I find the idea of extending additional credit to Brazil difficult if at all possible to accept at this time.

Two, Mexico announced on September 5 plans to extend a total of \$55 million to Cuba for the purpose of increasing its exports. In light of the recent Soviet atrocity and its inexcusable behavior, I think that we must be 100 percent certain that by lending money to Mexico we are in no way facilitating Mexico's ability to lend to Cuba, thereby aiding and abetting communism. Making it easier for Mexico to finance its imports permits it to use the capital otherwise needed for that purpose for other purposes, like aiding Cuba's ability to import. I find this activity intolerable and I don't think it is one that we should accept.

So I am anxious to hear how our witnesses approach these different points that we have brought up.

Thank you, Mr. Chairman.

Senator HEINZ. Senator Gorton.

Senator GORTON. No thank you, Mr. Chairman.

Senator HEINZ. Before I call on Secretary Olmer to testify, let me note that Ambassador Brock is not here to testify. I understand that he has been an active participant in getting the administration to focus on the role of Eximbank with respect to Brazil and Mexico, and responding particularly to the liquidity problems.

He strongly endorses the Eximbank facilities that are the subject of this hearing. He believes that they are important in furthering trade policies in those countries.

I have received a letter from the Ambassador to that effect, which will be included in the record at this point.

[The letter follows:]

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

September 13, 1983

The Honorable John Heinz
United States Senate
Washington, D.C. 20510

Dear John:

I want to take this opportunity to endorse Eximbank's decision to provide guarantee/insurance facilities to Mexico and Brazil to finance U.S. exports to these countries.

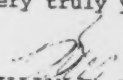
From a trade policy perspective, we have a strong interest in the economic fate of Mexico and Brazil. Mexico is our third largest trading partner. Brazil is an important market as well. I have tracked with alarm the deterioration of U.S. trade with these countries since the onset of the liquidity crisis. Between 1981 and 1982, U.S. exports to Mexico fell 36.5 percent from \$17.4 billion to \$11.8 billion. Exports declined 30 percent in the first half of 1983, relative to the same period in 1982, to \$4.2 billion. While less dramatic in terms of absolute value, U.S. exports to Brazil fell 30 percent in the first half of 1983 from \$1.76 billion to \$1.2 billion over the comparable period in 1982. While some reductions in U.S. trade were a natural consequence of adjustment measures, the rapid deterioration in U.S. exports can be linked also to a trade finance gap these countries are experiencing. Both commercial lenders and exporters have curtailed traditional trade finance as concern over the international debt issue has increased.

Consistent with its legislative authority, the Eximbank has responded aggressively to the trade finance gap facing Mexico and Brazil. Using existing programs, the facilities will help to ensure that private capital--commercial lending and supplier credits--continue to be made available for the purchase of U.S. goods and services. Further, the facilities should serve as a catalyst for other creditors' participation in facilitating trade finance. Finally, conditions governing the use of the facilities, including compliance with an IMF approved program, will ensure that the insurance and guarantees are used only for the purchase of essential production inputs. These facilities will play an important part in the economic adjustment efforts of Mexico and Brazil and further U.S. trade policy interests in these countries.

I am pleased that the Eximbank charter is sufficiently flexible to enable the Bank to structure programs in a way that enables them to meet new challenges in the export finance area. I am pleased also that the Bank has responded aggressively to this challenge.

Thank you for your consideration of my views.

Very truly yours,


WILLIAM E. BROCK

**STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR
INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE**

Mr. OLMER. Thank you, Mr. Chairman. I am pleased to be here.

The Commerce Department does strongly support the Eximbank guarantee and believes it is essential to the restoration of normality in trade with two of our key trading partners.

The lion's share of attention thus far has been devoted to the effects of debt in the developing world on international banks and on the ability of developing countries to make payments on the interest portion of their enormous debts.

Senator Mattingly pointed out just a moment ago how serious that is.

Meanwhile, the adverse effects on world trade of LDC debt have been multiplying, sometimes in subtle and dangerous ways not immediately apparent to outside observers, Government officials or central bankers.

During this period we have accumulated evidence of what I think would be called a quiet crash in trade finance.

We have toured a number of key exporting communities in the United States, talked to a number of different people, and reached the conclusion that the key participants in the trade finance system, regional banks, finance companies, exporters, export management companies, multinational companies, have all reacted to the macroeconomic problem of the LDC payment difficulty by reducing their exposure in conducting trade with the financially troubled developing world. This has included their unwillingness to extend even the short-term credits of 60 to 90 days which have traditionally underpinned most international transactions.

This is primarily hurting the private business sectors in these developing countries and has contributed to a drastic slowdown in imports and in their general economic activity.

It has also affected the ability of these developing countries to export, and in our judgment it will further discourage foreign direct investment. Thus LDC's ability to repay their debts will be made even more problematic.

I would like to summarize very briefly the kinds of problems that have been described to us.

First, there has been an erosion of confidence in the integrity of the financial instruments traditionally used to conduct international trade. U.S. exporters are either unable or unwilling to do business in Latin America on the basis of an open account or drafts or letters of credit. Until recently, we estimate over half of the U.S. trade with Mexico and with Brazil had been conducted in that manner.

Many U.S. companies are now seeking cash prepayment or 100 percent collateral. Many customers are unable to meet these strict requirements, including many in these high debt LDC nations who have had good repayment records and who have approved import licenses, but who simply do not have sufficient cash to prepay all purchases. An awful lot of U.S. companies would similarly find it difficult to prepay suppliers if they were suddenly deprived of all external credit. The companies in a weakened condition are cut off from short-term credit, which can be fatal.

Because of bank and exporter requests for collateral, the documentation and the handling of trade deals has become time consuming and very awkward.

Some multinational corporations—I think this is extremely serious—are in the process of limiting further credits to their own subsidiaries and to their affiliates in the developing countries.

In sum, there is a growing trade credit vacuum which is a major impediment to the smooth conduct of international commerce. The longer these kinds of pressures persist the more the burden is being placed on the importer and the U.S. exporter. Many U.S. companies have told us that the lack of financing for exports means that they have to finance inventories of unsold goods, and that the interest cost of that financing is causing a second blow to their own liquidity.

These companies are located in each of the States represented by the members here present at this subcommittee.

Trade credit shortages also pose a threat to the economic recovery efforts of the debtor nations.

Lack of adequate trade credits is hampering their efforts to arrange vital imports required for export production—semiconductors for computers, axles for trucks, and chemical fertilizers for soybeans.

The withdrawal of nonbank trade credit lines has opened an additional hole in high debt LDC's balance of payments, because it has been necessary to draw on reserves or use new medium-term borrowing.

EXPORTERS AND IMPORTERS NEED THIS PROGRAM

The cutoffs most painfully affect private sector firms rather than government corporations, because the former does not have comparable access to foreign exchange. As an example, in the first 6 months of this year Mexican private sector imports dropped 76 percent while public sector imports declined only 30 percent.

These sorts of problems have contributed to supply bottlenecks, bankruptcies, reduced profitability of foreign direct investments, and other disruptive consequences throughout the economies of the financially troubled LDC's.

By July of this year imports of both Mexico and Brazil were far below even the sharp cuts expected as a result of the IMF and other domestic austerity programs.

For Mexico, imports are 60 percent below 1982 levels and almost 70 percent below 1981 levels. While Mexico's austerity program has set targets of \$14 billion on imports for 1983, by the middle of this year they had imported only \$3.6 billion worth of goods. That kind of drop was not what either the IMF or Mexico intended.

The U.S. share of the Mexican import drop has been \$6.2 billion in lost sales in 1982 and another \$3 billion drop so far this year. Almost 85 percent of that decline occurred in the manufacturing sector, and the total loss in sales may represent as much as a quarter of a million jobs lost for American workers.

In the case of Brazil, nonoil imports dropped 28 percent in the first 6 months of this year versus the first half of 1982 in areas that affect jobs in all 50 States in America.

Through 1983, U.S. exports to Brazil will be almost 50 percent below 1980 levels.

Another consequence of this problem has been a dramatic increase in countertrade, barter, and clearing arrangements which do little to relieve long-term trade and financial pressures and do distort international trade patterns.

The Eximbank program proposed is not intended to make possible a pullout by banks or exporters from trade finance activities. It is meant to bring both back into these crucial activities.

The Eximbank money is not a disguised balance-of-payments loan. The facilities will provide insurance and guarantees, and will only be triggered when a U.S. export occurs.

The exporters who will most likely use these facilities are the small- and medium-size exporters that many people criticize the Bank for having ignored in the past. Multinationals with big ticket items tend to know where to go to get long-term Eximbank financing, whereas small- and medium-size exporters with goods needing only short-term financing have been less likely to bother with the added problems and costs involved in applying for Eximbank cover.

The new facility will provide a guarantee of the Mexican Government for the commercial risks and of the U.S. Eximbank for the political risk.

I know Mr. Leland will amplify on the efforts of the administration to capture the attention of our industrial partners in the OECD nations who we hope will join in a common approach to this problem.

Next week Secretary Baldrige will host a meeting among Cabinet members of the administration, chief executives of major multinational corporations, and representatives from the banking and exporting community for the purpose of acquiring current information as well as for a further discussion on many of these issues.

We will continue to use our close contacts in the trading world to insure that these new developments are understood as soon as possible and to promote an awareness of what we hope this new program will permit.

Thank you.

Senator HEINZ. Secretary Olmer, thank you very much.

[The complete statement follows:]

Statement of
Lionel H. Olmer
Under Secretary for International Trade
United States Department of Commerce
before the
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate
September 14, 1983

Mr. Chairman, thank you for the opportunity to discuss the proposed Exim guarantee and insurance facilities for Brazil and Mexico.

The Department of Commerce strongly endorses the establishment of these facilities. We believe they are essential to the restoration of normalcy with two of our key trading partners and to the process of moving towards a more orderly adjustment path.

Since mid-1982, the nations of Latin America have seen their creditworthiness and their access to international capital markets evaporate. Some, most notably Brazil and Mexico, have had to renegotiate the terms of their debts or have had to delay payments temporarily.

Consequently, the international banking system, these countries and those with whom they conduct business, have been subjected to enormous shocks and strains. Strenuous efforts have been made to maintain stability, and chaos has been prevented largely because of continued cooperation between the international banking community, governments in the developed world (the OECD nations), and central banks, multilateral financial institutions and the debtor nations.

The lion's share of attention has thus far been devoted to the effects of LDC debt on international banks and on the ability of developing countries' to maintain payments on the interest portion of their debts. Meanwhile, the adverse effects on world trade of LDC debt problems have been quietly multiplying--sometimes in subtle and dangerous ways not immediately apparent to outside observers, government officials and central bankers.

During this period we began to accumulate evidence of a quiet crash in trade finance.

In order to determine the extent of the problem, Commerce officials recently toured a number of cities in the U.S., talking with bankers, executives of major multinationals and exporters. We discovered that the key participants in the trade finance system--regional banks, finance companies, exporters, multinational firms, etc.--have reacted to LDC payments difficulties by sharply reducing their exposure in conducting trade with financially troubled developing nations. This has included their being unwilling to extend even short term credits of 60-90 days which have traditionally underpinned international business transactions.

Trade finance contractions are primarily hurting the private sectors in LDCs and have contributed to a drastic slowdown in imports and in their economic activity. These contractions are affecting the ability of LDCs to export and will discourage foreign direct investment, both of which are essential if LDCs are ever to be able to repay their debts.

The proposed Exim facility is a modest but central part of our attempt to restore confidence in the financing of trade with these countries.

Let me briefly summarize the problems that were described to us:

- o Erosion of confidence in the integrity of financial instruments used to conduct international trade (especially short-term instruments like unsecured letters of credit)-- particularly as regards shipments to Latin America. Evidence indicates that many U.S. exporters are unable or unwilling to do business in Latin America on the basis of an open account, drafts, and advised letters of credit due to fears of repayment difficulties. Until recently, over half of U.S. trade with Mexico and Brazil was conducted in this manner.

- o U.S. firms are now seeking cash prepayment or 100% collateral placed with a mutually trusted U.S. commercial bank for most shipments to the Latin American region. Many customers are unable to meet these strict requirements, including many private sector LDC companies with good payment records and approved import licenses, but who do not have sufficient cash to prepay all purchases. To place this in perspective, many first-class U.S. companies would similarly find it difficult to prepay suppliers if suddenly deprived of all external credit. For companies in a somewhat weakened condition, a cutoff of short-term credit from suppliers can be fatal.

- o A similar aversion to risk-taking has affected the secondary market for discounting trade paper of high debt LDCs. Many export credit managers of financing companies are now under orders from senior management not to increase exposure in countries with financial problems. As a result, suppliers who previously regarded the secondary market as a "safety net" where they could sell their trade receivables at a discount, and thus were willing to accept some risk when shipping to LDC clients, are now unwilling to grant short-term credit on their own account.

- o At the same time banks are increasingly unwilling to fill the trade financing gap. Bankers' growing hesitation stems in part from the pressure on the banks to extend new balance of payments loans to LDCs. These loans, which are being largely recycled back to the banks to meet LDC interest payments, do not directly benefit trade finance and have left banks less willing and able to assume risk or advance funds in support of new trade transactions. In other words, to the extent that banks have felt it necessary to increase their exposure on LDC balance of payments loans, they now feel they have less flexibility to increase exposure on behalf of trade.

- o In cases where banks do take part in Latin American trade deals, they now frequently require that their short-term credit exposure be fully collateralized, e.g., by title to goods, cash deposits, title to real estate, or payment guarantees by an industrial country exporter or importer.

- o Because of bank and exporter requests for collateral, the documentation and handling of trade deals has become time consuming and extremely awkward. As a result, trade volumes are down even where all parties involved are creditworthy and have access to hard cash.
- o Some multinational corporations, seeking to limit their vulnerability to LDC financial and economic problems, are in the process of limiting further credits to subsidiaries and affiliates in arrears. Parent companies have typically furnished such support directly through intercompany credit accounts or indirectly by providing back-up guarantees to banks or suppliers.

In sum, there is a growing trade credit vacuum which is becoming a major impediment to the smooth conduct of international commerce. Much of this contraction is being fed by the uncertainty inherent in the current adjustment process. Well publicized liquidity problems, payment delays and "international rescue packages" spread uncertainty far and wide, and affect the relationships which U.S. exporters have had with LDC importers for years. The longer these pressures persists, the more the burden is being placed on the importer and the U.S. exporter. Many U.S. companies told us that the lack of financing for exports means they have to finance inventories of unsold goods, and that the interest cost of this financing is causing a second blow to their liquidity.

The total number of companies affected is difficult to determine, but we have found few that have seen no fundamental change in their Latin American business. Among the firms we've talked to or heard from who are currently experiencing LDC debt related problems I doubt there is a state unrepresented, and I'm sure a quick survey of exporters in your district would confirm what I've said.

Trade credit shortages also pose a threat to the economic recovery efforts of debtor nations:

- o Lack of adequate trade credits is hampering their efforts to arrange vital imports required for export production; this in turn impedes the ability of these countries to earn foreign exchange and service their debts.
- o Similarly, a reduced supply of trade credits is making it more difficult to arrange hard currency financing for the exports of high debt LDCs. Again, this adversely affects LDC trade balances and limits foreign exchange earnings.
- o The withdrawal of non-bank trade credit lines has opened an additional hole in high debt LDCs' balance of payments, because it has been necessary to draw on reserves or use new medium-term borrowing to provide cash up front for imports or to provide financing for exports.

- o These cutoffs most painfully affect private sector firms rather than government corporation because the former do not have comparable access to foreign exchange. For example, in the first six months of this year, Mexican private sector imports dropped 76% while public sector imports declined only 30%. These declines may have little to do with what sector makes the most productive use of the imports. Rather they may simply reflect bank perceptions of risks based on the borrowers' access to foreign exchange, or a relationship of a government corporation to the central bank which makes it easier to acquire capital.
- o The preceding problems have contributed to supply bottlenecks, bankruptcies, reduced profitability of foreign direct investments, and other disruptive consequences throughout the economies of financial troubled LDC economies.

Brazil and Mexico are two key markets for U.S. exports. By July of this year, imports of both Mexico and Brazil were far below even the sharp cuts expected as a result of IMF and domestic austerity programs.

For Mexico, imports are 60 percent below 1982 levels and almost 70 percent below 1981 levels. While Mexico's austerity program had set targets of \$14 billion on imports for 1983, by mid-year they had imported only \$3.6 billion worth of goods. Such a drastic drop is not what the IMF or Mexico intended. As a result Mexico's economy is in its worst decline in memory and the business community consensus is that it may not have bottomed out. Official forecasts call for a decline in GDP of 2 percent in 1983; private expectations are for a 5 or 6 percent decline. Industrial factory utilization has dropped to an estimated two-thirds capacity. About 76 percent of private businesses anticipate losses this year and 15 percent are already in liquidation. This has also affected the U.S. economy. The U.S. share of the Mexican import drop has been \$6.2 billion in lost sales in 1982 and another \$3 billion drop so far this year. Almost 85% of that decline occurred in the manufacturing sector, and the total loss in sales may represent as much as a quarter of a million lost jobs for American workers.

In the case of Brazil, non-oil imports dropped 28 percent in the first six months of this year versus the first half of 1982. The ten largest categories showing a drop were: construction and mining equipment, metal structures, coal, wheat, soybeans, floating docks, crude petroleum, office machine parts and components, and parts for locomotives and rolling stock. These categories accounted for almost 70 percent of the reduction in the 1983 period and affect practically every major sector of the U.S. economy. Combined with the lost sales to Mexico they likely affect jobs in all 50 states.

If current trends continue through 1983, U.S. exports to Brazil will be almost 50% below 1980 levels. Of most concern is that Brazil's 1983 imports have continued to decline from 1982 levels month after month, despite the fact that Brazilian export earnings have showed a steady increase. One look at the attached table will show that Brazilian imports were down 14% in January, 21% by April, and 24% by July and these drops were in addition to declines already registered in 1981 and 1982. At some point this decline in imports must stop if Brazil is to maintain its capability to export.

Import contractions can cut into the bone of the productive sectors of the economy and thereby reduce the abilities of the country to earn its way out of debt. This is in nobody's interest. This growing trade credit vacuum, in our view, is a serious impediment to the conduct of trade, especially trade with Latin America. Short-term credit is essential to importing countries and to individual enterprises within those countries. The evaporation of short-term trade credit, on top of shortages of both medium-term balance of payments and adequate finance to support trade, will deprive the wheels of international trade of essential lubrication and will delay economic adjustment and recovery. The result thus far has been sharp cuts in U.S. exports and LDC imports.

Another consequence has been an increase in countertrade, barter and clearing arrangements which do little to relieve long term trade and financial pressures while distorting international trade patterns.

All of us have an interest in easing this problem. This "red lining" of the private sector in high debt LDCs is myopic at best, dangerous probably, and can undermine all the efforts that have been made to help these economies adjust. The uncertainty in the current environment along with public criticisms of bank exposure in these countries may have encouraged these short-sighted steps. Nonetheless, they must be reversed.

Ultimately, the solution to this state of affairs lies in world economic recovery and renewed confidence by banks, exporters, and multinational corporations. In the meantime, bankers and government export credit agencies can and should try to minimize the disruptive impact on trade resulting from LDC financial problems. Despite limitations on resources, official export credit programs can help to furnish a measure of stability on the trade scene, provided that these programs are expected only to reduce the uncertainties and risks that are now confronting exporters and banks. They cannot, and should not, attempt to fill the financing gap entirely.

The U.S. Eximbank program to provide \$2 billion in insurance and guarantees to Mexico and Brazil (\$.5 billion and \$1.5 billion respectively) is not intended to make possible a pullout by banks or exporters from trade finance activities. It is meant to bring both back into these crucial activities and to prevent a further counterproductive drop in the economic life of these LDCs. It can do so by removing the political risk and thus a measure of the uncertainty. This hopefully will provide an incentive for banks to increase their trade finance lending to a level that stabilizes LDC economies.

The Exim money is not a disguised balance of payment loan. The facilities provide insurance and guarantees, and will only be triggered when a U.S. export occurs. A look at the list of products likely to be exported is attached to the Exim testimony and makes clear that these goods are key U.S. exports and essential LDC imports.

We also believe the use of Exim authority in this fiscal year is legitimate. We think that it should have been established much sooner--once it becomes clear that Mexican and Brazilian imports were dropping too rapidly and that trade finance problems were contributing importantly to this decline. In fact, the unused authorization of Exim insurance and guarantee resources for this fiscal year is partly a result of the drop in our exports to these countries. Consequently, to use these 1983 resources to halt the drop in exports that began in 1983 is not only appropriate, it is critical.

Let me point out Mr. Chairman, that the exporters who will most likely use these facilities are the small to medium size exporters that many people criticize the Bank for ignoring. Multinationals with big ticket items know where to go to get long term Exim financing. Small and medium size exporters with goods needing only short term financing have been less likely to bother with the added problems and costs applying for Exim cover might entail. And up until financial problems developed they had less of a need for this cover. This new facility, however, will commit funds up front by putting in place mechanisms, with U.S. and Mexican banks, to handle approved export transactions, and by providing the guarantee of both the Mexican Government and the U.S. Eximbank. In this way the Exim facility will reduce the uncertainty and administrative burdens and thus reestablish the confidence small to medium size U.S. exporters, and Mexican importers, need to begin doing business again on a more normal commercial basis.

We believe that Exim's help is essential to restoring confidence in normal trade finance lines. It is in nobody's interest to see these lines, and the exports they finance, contract further and we intend to work to see that these debt related trade problems are resolved.

Next week the Department of Commerce will host a meeting between cabinet members, chief executives of major multinationals and representatives from the banking and exporting community. Further, we will continue to use our close contacts in the trading world to ensure that these new developments are understood as soon as possible and to promote the efforts of this new program.

MEXICO
(\\$ millions)

	EXPORTS			IMPORTS			TRADE BALANCE		
	1981	1982	6 mos. 1983	1981	1982	6 mos. 1983	1981	1982	6 mos. 1983
Total	19.4	21.0	9.3	23.9	14.4	9.2	-4.5	6.6	0.1
with U.S.	10.5	11.2	*7.5	15.8	8.9	*7.2	-5.3	2.3	*3.8
Percentage Change									
Total	—	8.2%	—	—	-59.0%	—	—	246.6%	—
with U.S.	—	6.6%	*9.3%	—	-43.6%	—	—	143.3%	*126%

Source: Bank of Mexico

* Mexican statistics not available for 6 months 1983. These figures are U.S. data and include in-bond shipments.

BRAZIL
(\\$ millions)

	EXPORTS			IMPORTS			TRADE BALANCE		
	1981	1982	6 mos. 1983	1981	1982	6 mos. 1983	1981	1982	6 mos. 1983
Total	23,293	20,175	9,934	22,091	19,395	9,676	1,202	780	258
with U.S.	4,111	4,034	1,816 ¹	3,504	2,861	1,473	607	1,173	343
Percentage Change									
Total	—	-13	+5	—	-12	—	—	—	-23
with U.S.	—	-2	+20	—	-18	—	—	—	-28

1) Estimate from 5 month data.

Source: Brazilian statistics, various.

MEXICO
(\$ millions)

	EXPORTS (f.o.b.)		IMPORTS (c.i.f.)		BALANCE Cumulative 1983
	Month 1982	Cumulative YTD 1982	Month 1983	% Change 1983	

January	1,464	1,464	1,603	399	1,463
February	1,421	2,885	3,270	049	2,418
March	1,466	4,351	5,059	1,476	3,461
April	1,395	5,746	6,660	2,144	4,487
May	1,769	7,515	7,804	2,927	4,877
June	1,866	9,381	9,201	3,678	5,523
July	1,894	11,275	10,486		
August	1,834	13,109	11,562		
September	1,850	14,959	12,341		
October	2,024	16,983	13,168		
November	2,063	19,046	13,740		
December	1,952	20,998	14,417		

TOTAL

Wang #3525v

BRAZIL
(\$ millions)

	EXPORTS (f.o.b.)		IMPORTS (f.o.b.)		BALANCE Cumulative 1983
	Month 1982	Cumulative YTD 1982	Month 1983	% Change 1983	

January	1,706	1,706	1,653	1,414	155
February	1,472	3,178	1,441	2,615	330
March	1,781	4,958	1,710	3,809	844
April	1,573	6,532	1,225	5,034	1,450
May	1,751	8,283	1,548	6,352	2,121
June	1,651	9,934	1,701	8,053	2,955
July	1,703	11,637	1,623	9,676	3,662
August	1,766		1,697	11,573	
September	1,700		1,725		
October	1,605		1,650		
November	1,714		1,548		
December	1,753		1,513		
TOTAL	20,175		19,397		

Wang #3542v

STATEMENT OF MARC E. LELAND, ASSISTANT SECRETARY OF
THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. LELAND. I am pleased to appear before this subcommittee to discuss the guarantee and insurance facilities which Eximbank is ready to approve for Brazil and Mexico. The facilities, as everybody knows, would consist of medium-term guarantees and short- and medium-term insurance to be provided under Eximbank's exporter credit programs of up to \$1.5 billion for Brazil and up to \$500 million for Mexico.

The administration heartily endorses these facilities, because we believe they are necessary to maintain U.S. exports to these two important U.S. markets, and to support imports of vital raw materials, spare parts, and capital goods required to help maintain functioning Mexican and Brazilian economies.

In addition, these facilities will complement the financing being provided by the International Monetary Fund, other official creditors, and commercial banks in support of the adjustment programs adopted by Brazil and Mexico.

It is necessary in discussing these facilities to make some comments on the debt problem. There has been much discussion of whether the current debt problems of many developing countries constitute a liquidity problem or one of insolvency. Most analysts, particularly in assessing the cases of the middle and upper level income developing countries such as Brazil and Mexico, have concluded that such countries are confronted with a temporary, if very serious, liquidity problem, and not one of insolvency.

We share that view. We believe that with proper adjustment policies most troubled debtors should be able to restore their ability to service their international debts. However, orderly and effective economic adjustment will take time to accomplish and cannot take place without some continued financial flows, especially from commercial banks.

The United States has a direct stake in resolving the international debt situation. At the extreme, it could threaten the stability of our financial system. Even in its present form it is having a significant negative impact.

Mr. Olmer has already summarized the export data. I am sure you are familiar with the drop in our exports to these countries.

But due to the extent and complexity of the liquidity problems faced by key debtor countries such as Brazil and Mexico, external financing must come from a variety of sources and in a variety of forms. The most important is increased lending and debt relief from commercial banks to countries which are following appropriate adjustment programs. However, there is also a need for official finance from sources such as the International Monetary Fund, debt relief from official creditors through the so-called Paris Club, and official trade finance from major creditor countries to insure financing of imports crucial to debtor country adjustment.

In this context there is an important role for U.S. Government trade finance programs, such as CCC and Eximbank, to play in responding to countries experiencing extraordinary liquidity problems. We are using these trade programs to help develop the

market confidence and promote additional commercial bank lending.

But in addition, the program that we have presented is not one that we are doing alone; it would not be like the IMF where there is a fixed quota to which every government is required to contribute. Instead, it is part of a package that is being put together in which we would give additional export credit finance, along with other industrial countries. The only way that Brazil can adjust is to maintain a sufficient level of critical imports in order to sustain its exporting sector. In order to accomplish this, lines of credit must be kept open. We need a sufficient package from all the participants: the IMF, the banks, and governments.

We are committing ourselves to this program by offering trade finance. One of the reasons we are talking about specific amounts at this time, which we might not ordinarily do, is to encourage these multilateral efforts.

If Brazil sees that it has sufficient financing through 1984, then its IMF program can work. If it doesn't have sufficient financing, then no one wants to be part of a jigsaw puzzle that is incomplete. That is why we are insisting that the Eximbank support be part of a multilateral effort to put a package together to fulfill the needs of Brazil, and of Mexico.

Mexico thus far has remained in compliance with its funding limitations and has been eligible to make drawings on schedule. Greater progress has been made in reducing the current account deficit than originally had been anticipated. The target for 1983 was a deficit of \$4.2 billion, and the current forecasts suggest we may have a surplus of \$1 billion to \$2 billion. However, the surplus has come as a result of an enormous decrease in their imports. In order to maintain their economy and to build up their ability to export, the Mexicans need to increase critical imports.

Therefore the administration strongly supports Eximbank's concept of special guarantee and insurance facilities to Brazil and Mexico in these amounts. These facilities will be used solely to support U.S. exports.

The prospects for both countries offer reasonable assurance of repayment with the conditions imposed for each facility, that is, if you have an IMF program and if you have sufficient financing from the commercial banks, the multilateral government banks, and the other government banks. In addition, of course, the facilities will significantly contribute to the multilateral effort to provide Brazil and Mexico with sufficient external financing to allow the orderly economic adjustment which will enable them to overcome their current international debt problem.

Thank you.

[The complete statement follows:]

HOLD FOR RELEASE
EXPECTED AT 2:30 P.M., EST
WEDNESDAY, SEPTEMBER 14, 1983

STATEMENT OF THE HONORABLE MARC E. LELAND
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

I am pleased to appear before this Subcommittee to discuss the guarantee and insurance facilities which Eximbank is ready to approve for Brazil and Mexico. The facilities would consist of medium-term guarantees and short- and medium-term insurance to be provided under Eximbank's exporter credit programs of up to \$1.5 billion for Brazil and of up to \$500 million for Mexico.

The Administration heartily endorses these facilities. We believe they are necessary to maintain U.S. exports to these two important U.S. markets, and to support imports of vital raw materials, spare parts, and capital goods required to help maintain functioning Mexican and Brazilian economies. In addition, these facilities will complement the financing being provided by the International Monetary Fund, other official creditors, and commercial banks in support of the adjustment programs adopted by Brazil and Mexico.

The use of Eximbank for such purposes was not unforeseen. The facilities generally fall within the parameters of normal Eximbank programs. These facilities do, however, have two unusual features: the amounts involved and the conditions for their use.

Prior to any use of the facilities, the following conditions will have to be met: (1) the country shall be in compliance with its International Monetary Fund Extended Fund Facility; (2) commercial banks shall have established an additional financing program for the recipient; and (3) other creditor nations shall have made commitments to provide

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comparable financial support. In the case of Mexico, appropriate bilateral and implementing agreements with the United States shall have been signed pursuant to any multilateral debt rescheduling arrangement.

In order to put these facilities in context, I would first like to outline the Administration's policy toward the international debt problem and, in particular, the role of export credit institutions. Second, I would like to summarize the role Eximbank has played in the U.S. Government response to the international debt problems thus far. Third, I would like to briefly review the financial and economic problems facing Brazil and Mexico which have prompted the multilateral effort to assist them in their adjustment process. Finally, I want to explain the important role that the special conditions on the use of these Eximbank facilities will play, both in meeting the Bank's legislative requirements and encouraging multilateral cooperation by both private and official lenders in unwinding the current debt problems of Mexico and Brazil.

International Debt Problem and the U.S. Response

Over the past year, the international financial system has been confronted with serious problems as a result of (a) the size of the international debts of several key countries, (b) the inadequacy of their adjustment policies, and (c) the adverse effects of world economic recession on their debt service capacity. In response to growing concern over the international debt problem, lenders began to retrench sharply, and the borrowing countries have since been finding it increasingly difficult to raise normal amounts of trade finance to pay for essential imports. Last year, net new bank lending to non-OPEC LDCs dropped by one-third, to about \$32 billion for the year as a whole, and came to a virtual standstill for a time at midyear.

There has been much discussion of whether the current debt problems of many developing countries constitute a "liquidity problem" or one of "insolvency." Most analysts, particularly in assessing the cases of the middle and upper level income developing countries such as Brazil and Mexico, have concluded that such countries are confronted with a temporary, if very serious, liquidity problem, and not one of insolvency. We share that view. We believe that, with proper adjustment policies, most troubled debtors should be able to restore their ability to service their international debts. However, orderly and effective economic adjustment will take time to accomplish, and cannot take place without some continued financial flows, especially from commercial banks.

Current account deficits sustained over long periods are not by themselves evidence of insolvency. During the nineteenth century, the United States ran a current account deficit which was offset by investment flows necessary to develop our economy. However, such current account deficits need to be matched by sufficiently sound economic policies to encourage the necessary capital inflows. Mexico and Brazil have run into liquidity problems because of their economic policies and large foreign borrowings.

The International Monetary Fund has a central role in our strategy for managing international debt problems, due to its ability to negotiate effective adjustment programs with troubled countries. The IMF provides temporary balance of payments financing in support of these adjustment programs, and more importantly its programs imply a "seal of approval" which gives private lenders the confidence to resume new lending.

At times, we have found it necessary to provide short-term official financing to bridge the time needed to negotiate an IMF program. For this purpose, the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve provided \$2.5 billion to Mexico and \$1.9 billion to Brazil, amounts which have since been fully repaid.

Over the longer term, the adoption of export-oriented policies by debtor countries, the avoidance of protectionist measures in both debtor and creditor countries, and world economic recovery are key elements necessary to restore stability in the international financial system and to revive the growth of world trade. Maintenance of trade finance flows can play a crucial role in allowing this strategy to work.

The United States has a direct stake in resolving the international debt situation. At the extreme, it could threaten the stability of our financial system. Even in its present form, it is having a significant negative impact.

Recent data from the Department of Commerce illustrate the severe impact of the liquidity problems of Brazil and Mexico on U.S. exports and consequently U.S. employment:

(1) U.S. exports to Mexico, our third largest trading partner, declined sharply in 1982 and have continued their steep decline in the first part of 1983. U.S. exports dropped 36.5 percent from \$17.4 billion in 1981 to \$11.0 billion in 1982. Our exports totaled only \$4.2 billion in the first half of 1983, 39 percent lower than the level of nearly \$7.0

billion for the first half of 1982. Most of the decline was in exports of manufactured goods. U.S. agricultural exports to Mexico have not declined significantly because the Commodity Credit Corporation (CCC) responded to the contraction in trade finance and the Mexican crop failure by providing \$1.3 billion in guarantees to support U.S. agricultural exports.

(2) U.S. exports to Brazil fell steeply in the first half of 1983 following moderate declines in 1981 and 1982. U.S. exports totaled only \$1.22 billion January-June, 1983, 30 percent lower than the level of \$1.76 billion for the first half of 1982. If the current trend continues throughout all of 1983, U.S. exports to Brazil would be almost 50 percent below 1980 levels.

Due to the extent and complexity of the liquidity problems faced by key debtor countries such as Brazil and Mexico, external financing must come from a variety of sources and in a variety of forms. The most important is increased lending and debt relief from commercial banks to countries which are following appropriate adjustment programs. However, there is also a need for official finance from sources such as the International Monetary Fund, debt relief from official creditors through Paris Club rescheduling, and official trade finance from major creditor countries to ensure financing of imports crucial to debtor country adjustment.

In this context, there is an important role for U.S. Government trade finance programs, such as CCC and Eximbank, to play in responding to countries experiencing extraordinary liquidity problems. Trade finance programs can help develop market confidence, promote additional commercial bank lending, check the decline of U.S. exports resulting from debt problems, and facilitate LDC adjustment efforts. Official export programs can be adapted (1) so as to catalyze U.S. private sector participation, rather than relieve the bankers and exporters of reasonable and appropriate levels of risk, and (2) so as to not distort normal trade credit patterns. We believe such facilities should be used to help reestablish private trade finance activities.

The Administration foresaw an important role for Eximbank in responding to international debt problems in the 1980s. We have expected a contraction in Eximbank direct credits as the demand for subsidized export credits fades in light of falling commercial interest rates. At the same time, we have predicted a major increase in the demand for guarantees and insurance to ensure the continued availability of private credit for U.S. exports in the face of the debt problems which were making private lenders reluctant to continue

extending trade finance. The implication was that the best way that Eximbank could promote additional U.S. exports would be to shift from subsidized financing to maintaining the availability of private financing.

The need to respond quickly to the economic and financial problems facing Brazil and Mexico and the adverse impact of these problems on the U.S. economy, as well as a desire to make the most effective use of the budgetary resources available to Eximbank in FY 83 and FY 84, were the primary considerations in approving these facilities at this time. These facilities coincide with ongoing multilateral efforts to deal with these countries' liquidity problems, such as the pending Brazil/IMF agreement and our efforts to promote burdensharing among commercial banks and other official creditors. Since Eximbank had excess guarantee and insurance authority for FY 83, we felt it would be appropriate to authorize these facilities at this time.

Eximbank's Response to the International Debt Problem

Generally, Eximbank has remained open for business in most markets, even in the face of the international debt problem. Eximbank has taken a country-by-country, case-by-case approach to supporting U.S. exports through its direct credit, guarantee and insurance programs. Under its normal programs, it is estimated that Eximbank will authorize almost \$1.0 billion in direct credits and \$5 billion in guarantee and insurance authority in FY 83.

As liquidity problems mounted in key Latin American countries such as Mexico and Brazil, and as traditional sources of trade finance began to dry up, it became increasingly evident that recent levels of credit guarantees and insurance would not be adequate to sustain the flow of U.S. exports. Additional guarantees and insurance would have the added benefit of supporting the adjustment programs and restoring the confidence of the international financial community.

Brazilian and Mexican Economies

Brazil: Brazil faces a severe financing gap during the balance of 1983 and 1984 that threatens to cause a further substantial contraction in trade. Early in the 1980s Brazilian economic policies, which emphasized an accelerated growth rate and which external creditors were willing to finance, resulted in a 33 percent increase in external debt from \$63 billion in 1980 to over \$80 billion in 1982. During the same period, interest and the repayment of principal on

maturing debt consumed an estimated 80 percent of foreign exchange earnings. The crisis was precipitated in 1982 as (1) Brazil's economic adjustment effort faltered; (2) a worldwide recession reduced export earnings; (3) high interest rates increased the burden of existing debt; and (4) Brazil found itself unable to cut imports enough to offset these adverse developments. As a result, the current account deficit surged from \$11.7 billion in 1981 to \$14.7 billion in 1982. By late 1982, Brazil's need for new financing to finance the deficit and to service its international debt was considerably greater than its ability to attract new private lending. At the same time, Brazil's foreign exchange reserves were vanishing.

In the first round of exceptional financing arrangements for Brazil, the Bank for International Settlements provided a \$1.4 billion loan, and the U.S. Treasury provided additional short-term support in excess of \$1.2 billion. In February, 1983, Brazil and the commercial banks agreed on a four part program providing for a rescheduling of \$4.8 billion in maturing medium-term debt, confirmation of \$10 billion in short-term trade credits, extension of \$4.4 billion in a new medium-term facility and restoration of interbank lines of credit to the mid-1982 level of over \$9 billion. This package was complemented by a \$4.9 billion IMF three-year Extended Fund Facility and \$1.0 billion in CFF drawings.

These financing arrangements broke down in the spring of 1983, principally because not all banks were willing to maintain target levels for interbank deposits. Also, Brazil did not meet its performance targets under the IMF program and was out of compliance by the end of May. As a consequence, the IMF withheld a scheduled disbursement of \$411 million. The commercial banks in turn held back on disbursing a \$634 million installment of their new \$4.4 billion medium-term facility which had been linked to successful performance under the IMF program.

At midyear, in recognition of the inadequacy of its adjustment effort, the Government of Brazil began implementing many of the necessary further policy measures. Since then, wage indexation has been reduced, subsidies are being curtailed, public spending is being restrained, a tight monetary policy is being implemented, and some new taxes have been added.

This month the IMF and Brazil are expected to reach a tentative agreement on new economic targets and on performance criteria which should be presented to the IMF Executive Board

before the end of October. This reinforced adjustment effort may prove to be economically, socially, and politically very difficult, but it demonstrates the determination of the Brazilian authorities to deal with underlying problems. Also, it provides the basis for the resumption of complementary financial support from official and private creditors.

The Brazilian economy is going through a very difficult adjustment process. Foreign financing obtained to cover the very large current account deficits (totaling \$39 billion) experienced in the last three years (1980-82) has compounded Brazil's current debt burden. The measures necessary to contain and then correct the situation all imply a sharp contraction in domestic demand over the next 18 months. The current account deficit should drop to about \$7.5 billion in 1983 from \$14.7 billion in 1982, and next year should bring a small further improvement to about \$6 billion.

Even deficits of this size present a continuing financing problem. On current estimates, additional financing of nearly \$11 billion will have to be found for the remainder of this year and for 1984. Discussions are now underway within the banking community and among creditor governments in a cooperative effort to mobilize the financing needed to support Brazil's renewed adjustment effort.

Mexico: As in the Brazilian case, Mexico's debt crisis was precipitated by a combination of rapid growth in international debt, high interest rates, declining export revenues in the worldwide recession, and inadequate adjustment efforts. As private lenders became increasingly reluctant to extend new financing, Mexico experienced a dramatic drop in imports and in economic activity in the latter half of 1982. Imports fell from \$9.2 billion in the first half of the year to only \$5.2 billion in the last half. Total imports for the year, at \$14.4 billion, were 41 percent below 1981. Most of this drop came at the expense of U.S. exports to Mexico, which fell by \$6.0 billion between 1981 and 1982.

To assist the Mexican authorities while they reached agreement with the International Monetary Fund and with their creditor banks, governments in creditor nations extended a total of \$3.85 billion in financial assistance. Most of this assistance came from the United States in the form of a \$1 billion advance payment by the Department of Energy for the purchase of crude oil for the Strategic Petroleum Reserve (SPR), \$1 billion in CCC guarantees for U.S. agricultural exports to Mexico, and \$925 million in short-term assistance from the Treasury's Exchange Stabilization Fund and the Federal Reserve. An additional \$925 million was provided by

treasuries and central banks in ten other industrial countries. The entire \$1.85 billion package of short-term assistance was repaid on schedule by August.

Subsequently, the export credit agencies of the principal creditor governments agreed to a package of about \$2 billion in additional export credit guarantee lines of which the U.S. share was half. Of the U.S. share, \$300 million came in new Eximbank lines and \$700 million in CCC credit guarantees. The large amounts of CCC guarantees have been particularly helpful at a time when Mexico has been experiencing drought conditions and has needed to import considerable amounts of agricultural goods from the United States.

In June, Mexico's official creditors agreed to a rescheduling which will provide about \$1.7 billion in debt relief through the end of this year, with a possibility of further relief later. Commercial banks in turn have extended \$5 billion in net new loans in 1983 and have been rescheduling about \$20 billion in medium-term public sector debt. Arrangements have already been agreed to for about \$11 billion of this rescheduling, with the remainder still under negotiation.

The IMF three-year Extended Fund Facility arrangement which was approved last December focuses on a reduction in the public sector deficit, from 18.6 percent of GDP in 1982 to 8.5 percent this year. In order to promote exports, Mexico is to manage its exchange rate flexibly in the controlled exchange market, and eventual unification of the multiple rate system is contemplated. Limits have been set on total credit expansion and, separately, on credit to the public sector. Interest rates are to be managed flexibly, aimed at efficient market allocation of credit and promotion of savings.

Thus far, Mexico has remained in compliance with its Fund commitments and has been eligible to make drawings on schedule. Greater progress has been made in reducing the current account deficit than originally anticipated. The target for 1983 was a deficit of \$4.2 billion. Current forecasts suggest that there may actually be a surplus of \$1-2 billion. However, to a considerable extent, this reflects slower economic activity and lower import demand than originally expected. Real growth this year is now expected to be negative, by as much as 5 percent, compared to the zero growth originally envisaged. Achievement of positive real growth next year may also prove to be difficult.

In any case, Mexico's foreign liquidity problems are not yet over. Foreign reserves remain very low and some net new financing from commercial banks may be needed next year.

Also, if Mexico is to maintain a tolerable level of imports this year and next, it will need a steady flow of trade finance, in the face of continued reluctance by commercial banks and foreign suppliers to increase, or even maintain, current levels of exposure.

Eximbank Facilities for Brazil and Mexico

As I have already mentioned, Eximbank is prepared to respond to these liquidity problems by providing special insurance and guarantee facilities to ensure that financing remains available to support a continued flow of U.S. exports to Brazil and Mexico. The new Brazilian facility is directed to complement the IMF program and contribute to the multi-lateral financing efforts to help Brazil through its current difficulties. The Mexican facility will strengthen the Mexican recovery effort by acting both as a catalyst for continuing support by the international financial community and as a secure source of financing for U.S. exports.

Advantages of Insurance/Guarantee Facilities: The new facilities have the following advantages:

-- Such facilities help ensure the availability of trade finance and thus help fill financing gaps caused by liquidity problems.

-- Eximbank is requiring the full faith and credit obligation of the recipient government for these facilities. Such government guarantees would not generally be available to commercial lenders if Eximbank had not been involved. The government guarantee contributes to a finding of "reasonable assurance of repayment."

-- Eximbank insurance and guarantee programs to sovereign public buyers cover 100 percent of principal and a significant portion of the interest rate.

-- The facilities allow maximum flexibility to the debtor government in responding to its liquidity problem. These governments can determine the priority of products to be covered, as well as which U.S. exporters and banks would have access to the facilities.

-- The facilities can be structured to generate additional liquidity support if commercial bank access to the facilities is contingent upon the banks' participation up to their fair share in other new lending, at their own risk.

-- The facilities will take into account the need to support U.S. export sales to the private sector as well as sales to public sector entities.

-- The facilities can be implemented rapidly.

Conditions: The new Eximbank facilities for Brazil and Mexico will only be part of a much larger multilateral effort. This effort includes (1) an IMF program; (2) additional new commercial bank financing; (3) official finance from other governments; and (4) rescheduling of existing debt. To ensure that such a multilateral effort takes place, we have insisted that four conditions be met before the facilities can be triggered. I would like to explain these conditions in greater detail, particularly in light of the specifics of the Mexican and Brazilian situations.

(1) The facilities should only be available if the debtor country remains in compliance with IMF stabilization programs.

The condition that the debtor country remain in compliance with an IMF stabilization program is necessary to ensure that appropriate adjustment policies are in place and to show that the debtor country offers reasonable prospects of repaying its debt. Compliance with an IMF program is also a precondition for the disbursement of funds by other participants in the multilateral financing effort -- the IMF, other official creditors, and commercial banks.

In Brazil, disbursements under the IMF's \$4.8 billion Extended Fund Facility were discontinued when Brazil fell out of compliance with IMF targets in May. The IMF management and Brazil are expected to reach an agreement this month on revised targets. The IMF Board should consider the revised agreement before the end of October, and IMF disbursements may resume late this year. Under these circumstances, it is only prudent that Eximbank await final agreement with the IMF before activating its guarantee and insurance facility. As a further incentive to remain in compliance with an IMF program, Eximbank could suspend the facility if Brazil fell significantly out of compliance with its IMF program and the IMF suspended further disbursements.

Mexico already has an ongoing Fund program and is in compliance with its performance targets. If that were to cease to be the case, the Eximbank could suspend the facility, as in the case of Brazil.

(2) The facilities could be specifically linked to continued commercial bank financing. The distribution of the financing burden between private and official creditors must be equitable. It is essential that commercial banks continue to bear their share of new financing and risk-taking.

The role of private creditors is particularly crucial in Brazil at the moment. The banks are now considering a contribution to the overall financing package for Brazil on the order of \$7-9 billion. Obtaining commitments of this size will be difficult, particularly with regard to the participation of smaller banks in the syndication. We expect to put existing trade finance and interbank deposits on a committed basis to ensure that official U.S. and other export insurance/guarantees to non-Brazilian banks are truly additional.

In the case of Mexico, the commercial banks have already made financing commitments in the form of new credit for 1983 and debt rescheduling through 1984 which seem to be sufficient. There may be some need for additional net new financing in 1984, but the amount is likely to be smaller than in the Brazilian case.

(3) Other creditor governments should provide new credits along with the increase in U.S. credits to assure equitable sharing of the financing burden among governments.

If the United States undertakes to provide Brazil with substantial amounts of Eximbank trade finance, the question arises as to the appropriate level of support by other governments. Under most burden-sharing formulas, whether related to trade, outstanding debt or value of service payments, the U.S. share in the financing burden should amount to approximately 40 percent. We are in the early stages of discussing with other major developed countries the contribution they might make to an overall export credit guarantee package. We do not contemplate that the special Eximbank facility will become operative until this additional financing is raised.

(4) Official debt rescheduling arrangements are expected to form an important part of the overall financing program for both Brazil and Mexico.

Brazil has recently formally requested a Paris Club rescheduling. Estimated maturing obligations to official creditors during the period from August 1, 1983 through December 31, 1984 amount to more than \$2 billion. Preliminary discussion of the rescheduling is expected in Paris on September 15.

In the Mexican case, signature of bilateral and implementing agreements under a previous rescheduling arrangement is a precondition for the Eximbank facility. As mentioned before, in June, Mexico's official creditors reached a multilateral agreement to extend debt relief to Mexico through the end of this year. Bilateral and creditor agency agreements are now being negotiated by each of the creditor countries. We are hopeful that our agreement with Mexico can be completed by October. Also, the official creditors have indicated to Mexico their willingness to consider further debt relief beyond 1983, and preparations may begin later this year.

Facilities and Normal Eximbank Programs

The new Eximbank facilities are not extraordinary, except in the amounts involved and the specified conditions. These facilities fall within the general ambit of Eximbank programs and are consistent with the Eximbank Charter:

-- The facilities fall within the parameters of current Eximbank insurance and guarantee programs. Coverage would only be triggered when a U.S. export occurs.

-- The facilities may be used only in support of specific U.S. exports, as is normally the case in Eximbank's programs.

-- Existing insurance programs are well-suited to supporting the type of multipurpose lines of credit needed to support imports of commodities, spare parts, and capital goods.

-- The facilities draw on existing Eximbank guarantee/insurance authority, consistent with the Administration's Eximbank budget policy to place more emphasis on guarantees and insurance. The Administration has already recognized such contingencies in its request for guarantees and insurance in FY 84;

-- The facilities, with the special conditions, meet the Charter's requirement of "reasonable assurance of repayment." First, the facilities require the full faith and credit obligations of the Governments of Brazil and Mexico. Eximbank has had good experiences with government guaranteed transactions, including a very high recovery rate in case of default. Secondly, compliance with an IMF program indicates that the debtor country is undertaking a major effort to adjust and work its way out of its debt problem. Finally, parallel actions by the commercial banks and other governments will provide further evidence of international confidence that the debtor country has a good chance of solving its liquidity problems.

Conclusion

The Administration strongly supports Eximbank's authorization of special guarantee and insurance facilities to Brazil and Mexico in the amount of \$1.5 billion and \$500 million respectively. These facilities will be used solely to support U.S. exports. The prospects for both countries offer reasonable assurance of repayment with the conditions imposed for each facility. In addition, they will significantly contribute to the multilateral effort to provide Brazil and Mexico with sufficient external financing to allow the orderly economic adjustment which will enable them to overcome their current international debt problems.

Senator HEINZ. Thank you very much.
Mr. Draper.

**STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND
CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES**

Mr. DRAPER. Thank you, Mr. Chairman. I am pleased to have the opportunity to explain to you and the members of the subcommittee Eximbank's proposed facilities for Brazil and Mexico.

The facilities will consist of medium-term guarantees and short- and medium-term insurance to be provided under Eximbank's exporter credit programs. The facilities, up to \$1.5 billion in the case of Brazil and up to \$500 million in the case of Mexico, actually represent the aggregate of numerous individual export sales of the kind that Eximbank routinely covers under its short- and medium-term guarantee and insurance programs.

Let me emphasize, Mr. Chairman, that the facilities may be used only in support of specific U.S. exports. They in no way constitute an advance of funds by the U.S. Government to the Governments of Brazil and Mexico to support the balance of payments of either country.

The transactions being supported under these facilities will be monitored in the same way as all of our exporter credit transactions, and in all respects are entirely consistent with the Eximbank's longstanding practice of offering insurance and guarantees to commercial banks and exporters in advance of commitments by foreign purchasers to buy specific U.S. exports.

The need for financial assistance of this kind is greater now than ever before. Data recently released by the Commerce Department, which you heard testimony on, concerning U.S. exports to Brazil and Mexico in the first half of 1983 indicate that both countries have sharply cut their purchases from the United States. U.S. exports to Brazil fell by \$535 million in the first half of 1983, dropping 30 percent compared with the same period in 1982.

Using the same comparison, U.S. exports to Mexico fell by \$2.7 billion or 39 percent. The combined impact of these reductions in trade in the first half of 1983 is to place many thousands of U.S. jobs in jeopardy.

Our facilities in Brazil and Mexico will not only support U.S. exports, but will also act as a catalyst for the multilateral, bilateral and commercial bank support so necessary for the economic well-being of both countries.

In Brazil's case the facilities will bridge a portion of the \$11 billion gap between the sources and applications of funds for the period 1983 and 1984. After taking into account its export earnings, Brazil will probably need an additional \$24 billion to meet all its foreign exchange needs. However, only \$13 billion is expected to be realized by Brazil from their present commitments.

The Eximbank facilities will enable U.S. commercial banks to establish lines of credit with Brazilian and Mexican financial institutions to finance individual U.S. exports. The commercial banks will be covered against risks of nonpayment under Eximbank's guarantee and insurance program. Purchasers in Brazil and Mexico will then be able to place orders for U.S. goods and services with the

knowledge that a reliable source of financing is already in place. This procedure is the same as that used under Eximbank's traditional practice, with the only difference being that the facilities will be in place for 1 year to support the overall flow of exports from the United States to Mexico and Brazil.

In our statements to the Congress on the facilities we noted that the categories of U.S. exports eligible for support under the facilities consist of food, chemicals, manufactured goods, machinery, transportation equipment and, in the case of Brazil alone, coal.

I have prepared for inclusion in the record of this hearing a more detailed list of products which are likely to fall within these categories. The appropriate term of repayment has also been noted for each product type.

Loans by the commercial banks which are covered under the facilities will be offered at market rates, and Eximbank will charge its standard insurance and guarantee fees for these transactions. These fees are based on the term of financing.

We have also placed certain conditions upon the use of the Eximbank facilities. The basic thrust of these conditions is to insure that the entire international financial community shares the burden of assisting Brazil and Mexico while at the same time requiring the debtor countries to comply with IMF programs.

Within the lender countries both private and public sources of financial assistance must be made available for Brazil and Mexico. Private creditors will have to provide funds substantially in excess of those already committed. In this case, as in all cases in the past, we anticipate that the commercial banks will be the primary source of new financing. I want to emphasize that these additional funds will be at the commercial banks' own risk.

A third condition is that other creditor countries should assume their share of the burden as well. The Treasury Department is actively seeking comparable support from the other major creditor countries for Brazil and Mexico, as you have heard from Mr. Leland.

Any further drop in the GNP of Brazil and Mexico will have a serious adverse impact upon U.S. exports and U.S. jobs. By assisting their recovery we can enhance the potential of these two countries as critical markets for U.S. exports.

We believe, therefore, that the facilities which we will be prepared to approve are an appropriate exercise of Eximbank's statutory mandate to aid in financing and facilitating U.S. exports. In reaching this conclusion, we believe that the prospects for both countries offer a reasonable assurance of repayment in view of conditions imposed on each facility.

Thank you, Mr. Chairman. I would be delighted to answer any questions that you may have.

[The complete statement follows:]

Statement of
William H. Draper III
President and Chairman
Export-Import Bank of the United States
Before the
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate

September 14, 1983

Mr. Chairman and Members of the Subcommittee:

Mr. Chairman, I am pleased to have the opportunity to explain to you and the members of the Subcommittee Eximbank's proposed Facilities for Brazil and Mexico.

The Facilities will consist of medium-term guarantees and short- and medium-term insurance to be provided under Eximbank's exporter credit programs. The Facilities -- up to \$1.5 billion in the case of Brazil and up to \$500 million in the case of Mexico -- actually represent the aggregate of numerous individual export sales of the kind that Eximbank routinely covers under its short- and medium-term guarantee and insurance programs.

Let me emphasize, Mr. Chairman, that the Facilities may be used only in support of specific U.S. exports. They in no way constitute an advance of funds by the U.S. Government to the governments of Brazil or Mexico to support the balance of payments of either country. The transactions being supported under the Facilities will be monitored in the same way as all of

our exporter credit transactions, and in all respects are entirely consistent with Eximbank's long-standing practice of offering insurance and guarantees to commercial banks and exporters in advance of commitments by foreign purchasers to buy specific U.S. exports.

The need for financial assistance of this kind is greater now than ever before. Data recently released by the Commerce Department concerning U.S. exports to Brazil and Mexico in the first half of 1983 indicate that both countries have sharply cut their purchases from the United States. U.S. exports to Brazil fell by \$535 million in the first half of 1983, dropping 30% compared with the same period in 1982. Using the same comparison, U.S. exports to Mexico fell by \$2.7 billion or 39%. The combined impact of these reductions in trade in the first half of 1983 is to place many thousands of U.S. jobs in jeopardy.

Our Facilities in Brazil and Mexico will not only support U.S. exports, but will also act as a catalyst for the multilateral, bilateral and commercial bank support so necessary for the economic well-being of both countries. In Brazil's case, the Facilities will bridge a portion of the \$9-10 billion gap expected in both 1983 and 1984. After taking into account its export earnings, Brazil will probably need an additional \$25 billion to pay for prior and new imports and debt. However, only

about \$16-17 billion is expected to be realized by Brazil on investment flows, disbursements under financial commitments and gold sales.

The Facilities will enable U.S. commercial banks to establish lines of credit with Brazilian and Mexican financial institutions to finance individual U.S. exports. The commercial banks will be covered against the risks of non-payment under Eximbank's guarantee and insurance program. Purchasers in Brazil and Mexico will then be able to place orders for U.S. goods and services with the knowledge that a reliable source of financing is already in place. This procedure is the same as that used under Eximbank's traditional practice, with the only difference being that the Facilities will be in place for one year to support the overall flow of exports from the United States to Mexico and Brazil.

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assisting recovery in both Brazil and Mexico, we can enhance the potential of these two countries as critical markets for U.S. exports. We believe, therefore, that the Facilities which we will be prepared to approve are an appropriate exercise of Eximbank's statutory mandate to aid in financing and facilitating U.S. exports. In reaching this conclusion, we believe that the prospects for both countries offer a reasonable assurance of repayment with the conditions imposed on each Facility.

Thank you, Mr. Chairman. I am now prepared to answer any questions that you or the members of your Subcommittee may have.

Detailed List of Exports and Normal Term of Financing

Food - 180 days, except as noted

Live animals (breeding stock - up to 3 years), dried, salted,
smoked meat
Dairy products, including milk, cream, cheese
Fish, including shellfish and frozen, salted, dry, pickled or
smoked fish
Cereals, including wheat, rice, corn, flour, meal, groats
(bulk agricultural commodities - up to 360 days)
Vegetables and fruits
Sugar, honey, syrups, molasses
Animal feed
Miscellaneous food preparations
Tobacco

Chemicals

Fertilizer - 360 days
Synthetic resins - 180 days
Synthetic rubber - 180 days
Plastic materials - 180 days

Manufactured goods - 180 days, except as noted

Leather
Tires and tubes
Cork and wood manufactures
Paper, paperboard
Yarn, fabric, textile articles
Iron and steel
Nonferrous metals
Manufactures of metal - up to 5 years

Machinery - up to 5 years

Power generating machinery
Specialized industrial machinery
Metalworking machinery
Office machines
Industrial machinery
Telecommunications and sound reproduction equipment

Transportation Equipment - up to 5 years, except as noted

Road vehicles
Railway equipment
General aviation aircraft - up to 7 years
Ships, boats

Coal - 180 days

Senator HEINZ. Thank you very much, gentlemen.

I'm not going to dwell on the legality of this issue. Senator Proxmire, I think, is going to pose a number of questions in that area, but what I would like to clear up, is whether—I suppose I should direct this to either Mr. Olmer or Mr. Leland, because of their positions within Commerce and the Treasury—are these two facilities essential to achieving the foreign policy objectives of the United States?

PROGRAM HAS FOREIGN POLICY AND FOREIGN ECONOMIC RELATIONSHIPS

And I say that with the presumption that whenever bilateral military, or in this case economic, assistance of any kind has been granted to one or more than one country, it has always been claimed that it is within the foreign policy interests of the United States to do so.

Is that not an important factor in this case?

Mr. OLMER. I think it is. I think it is in the national interest to get on with the business of doing everything we can within the law to promote a return to normality with respect to trading relationships with these high debt countries.

It does seem to me that we have got to see to a return to some semblance of normality of the productive sectors of the economies in Mexico and Brazil. Those are the two hardest hit.

Senator HEINZ. What is the foreign policy consequence?

Mr. OLMER. Well, the foreign policy consequences are that an important element of the restoration program will not be completed unless we can do this.

Senator HEINZ. Is that an economic policy?

Mr. OLMER. I would call it a foreign economic policy, and as I'm sure you have heard oftentimes, the line distinguishing foreign policy from foreign economic interests is sometimes obscure.

Senator HEINZ. There was nothing tricky in the question. It would seem to me that is quite important for our foreign policy objectives, leaving the word economic out of them. Mexico and Brazil are strategic. Stability in those countries is vital. If those countries cannot make it they invite destabilization by powers in and out of the hemisphere, who would welcome destabilization.

The consequences, for example, of a radicalized Mexico or, let us say, a Sandinista, Cuban influence taking over the Government of Mexico would mean that we would have to totally alter and redeploy our defenses in this country. I would imagine we would want to have key positions redeployed, and that's what we did in NATO.

Mr. OLMER. Thank you for your help in answering the question.

[Laughter.]

Senator HEINZ. Would you agree? Would you answer the question?

Mr. OLMER. Yes. [Laughter.]

Senator HEINZ. Mr. Leland, would you agree?

Mr. LELAND. So would I. [Laughter.]

Senator HEINZ. Mr. Draper, do you consider it important to foreign policy, more importantly, is that one of the reasons that you sent us the August 17 notifications?

Mr. DRAPER. Absolutely.

Senator HEINZ. Gentlemen, it was not meant to be a trick question. [Laughter.]

Secretary Olmer, you've been testifying too much up here.

Mr. OLMER. Now you tell me. [Laughter.]

Senator HEINZ. Now, there is one, I think, important element of these credits, insurance guarantees that Mr. Draper proposes to establish in these facilities, and that is help for long-term insurance. We have some medium term, but as Mr. Draper's submissions point out, in terms of the balances that the Eximbank has outstanding with both Mexico and Brazil, the vast preponderance are longer term credits or guarantees. These are going to be predominantly medium- and short-term credits and guarantees.

Mr. Draper, how would you respond to the question, isn't that a dangerous precedent? Why is it not true, therefore, that the Bank is doing something that is unusual here, in terms of the Bank's usual methods of servicing U.S. exporters.

Mr. DRAPER. Well, Mr. Chairman, as you know, there are two parts to the Bank. One is like a commercial bank. We make long-term loans to facilitate exports for large projects. In that kind of financing, we only do it, of course, where we think that commercial banks won't be able to do it. But that part of our business is the direct credit part, and it gets the most attention. It gets more focus because of our budget, and the exporters with whom we have the most contact seem to be most interested in that part. But I think it's important to recognize that we have a whole other side of the Bank, which is our insurance and regular bank guarantee programs. That side of the business is actually larger than the project financing—

Senator HEINZ. Is the insurance more toward the medium term?

Mr. DRAPER. Yes. The insurance is much more likely to be short term and medium term.

Senator HEINZ. What is the average maturity of the insurance in force?

Mr. DRAPER. Well, I think it ranges probably around 180 days.

Senator HEINZ. The Bank has outstanding right now how much insurance, around 180 days?

Mr. DRAPER. I'll have a little help here. We have a total exposure in short-term insurance of \$4.9 billion, and short term is, incidentally, under a year. Medium term is 1 to 5 years. Our medium-term insurance exposure is \$543 million, and \$4.9 billion for short term. Then regular bank guarantees exposure is \$1.3 billion.

Now that's out of a total exposure of \$35 billion.

Now on the other hand, our authority—

Senator HEINZ. Just so I understand you. This has nearly doubled the amount of guarantees, insurance.

Mr. DRAPER. These facilities are for both guarantees and insurance. It's a total of \$2 billion for Brazil and Mexico, and these numbers I've just given you totaling about \$6.5 billion are our current exposure in short and medium term.

Now, what I wanted to say, though, was that the insurance programs turn over quite often. If they are an average of 180 days, and this is the exposure as of August 31, 1983, it might mean that

there was twice that amount of short-term shipments during the year.

Now, you have given us authority to go up to \$9 billion in guarantees and insurance this year. And we're under that, as you can see, currently. We will continue to stay, of course, within the authority limits you provide. We are requesting \$10 billion for guarantee and insurance authorizations in fiscal year 1984. Now the authority that we're requesting in direct credits——

Senator HEINZ. Excuse, Mr. Draper, I'm going to run out of time there. The only point I wish to establish is that this is a significant slice of insurance and guarantees, \$2 billion outstanding.

Mr. DRAPER. It is significant, but our annual guarantee and insurance authorizations are still bigger than the credit side, is the point I want to make. I just want to clear that up.

Senator HEINZ. It might be helpful if you just submitted for the record, all on one piece of paper, a consolidated summary.

Mr. DRAPER. Yes. I'll be glad to do that.

[Information supplied for the record follows:]

SUMMARY OF EXIMBANK'S EXPOSURE
AS OF AUGUST 31, 1983
(IN THOUSANDS OF DOLLARS)

	S/T FCIA INS	M/T FCIA INS	REG. BANK EXPORTERS	FINANCIAL GUARANTEES	REG. LOANS	CFF. & REL LOANS	TOTAL EXPOSURE
AFRICA / MIDDLE EAST	236,526	159,470	300,202	1,148,119	3,935,100	10,105	5,790,002
ASIA	224,553	25,937	168,259	1,518,623	7,643,611	5,077	9,586,050
EUROPE - EC ##	266,526	3,729	13,848	390,669	1,440,825	2,095	2,125,892
CANADA / EUROPE - OTHER	283,512	39,966	58,786	974,134	4,256,231	13,370	5,626,019
LATIN AMERICA	419,206	309,284	674,239	811,440	5,345,195	23,932	7,503,295
	1,431,123	538,385	1,215,333	4,842,005	22,628,841	54,578	30,711,266
DISCOUNT LOANS					668,254		668,254
PEFCO				90,062	50,000		140,062
				90,062	718,254		808,316
	1,431,123	538,385	1,215,333	4,933,067	23,347,095	54,578	31,515,582
S/T INSURANCE, UNSHIP BAL	2,808,372	-	-	-	-	-	2,808,372
MASTER POLICIES, UNSHIP BAL	701,836	-	-	-	-	-	701,836
MISCELLANEOUS	-	5,351	134,859	391	-	-	140,641
	3,510,208	5,351	134,859	391	-	-	3,650,849
TOTAL EXPOSURE	4,941,331	543,776	1,350,192	4,933,458	23,347,095	54,578	35,170,431

EUROPEAN COMMUNITY COUNTRIES

00030

OFFICE OF THE TREASURER-CONTROLLER

FY 1983 Authorization Levels Approved in Continuing
Resolution (PL 97-377)

(\$ Millions)

LOANS

Regular	\$4,000
Discount	400
Total Loans	<u>4,400</u>

GUARANTEES & INSURANCE

Financial Guarantees	950
M/T Guarantees	905
S/T Insurance	4,285
Master Policies	1,930
M/T Insurance	930
Total Guarantees & Insurance	<u>\$9,000</u>

Senator HEINZ. This should be a fairly quick question and quick answer.

Mr. DRAPER. Yes. [Laughter.]

FINANCING WILL CREATE ADDITIONAL EXPORTS

Senator HEINZ. It seems to me that one of the questions that we've really got to face here for this to be good politics is whether what you're proposing will result in what we've come to call additionality, additional exports, that would not otherwise be made. Presumably, they would not otherwise be made, because the financing of those exports could not otherwise be generated, whether it is generated by the willingness of the exporters to hold paper for 180 days or more or going to some other financial institution, bank acceptances, or so forth, for the same purpose.

Are you maintaining that most of this, if not all of this \$2 billion that you seek in these facilities, will result in additional export, if we did not have this facility. In other words, we just would not realize most of these exports?

Mr. DRAPER. I think it is difficult to make that a short answer, as it was to make it a short question. I think that the problem, when you say additionality—

Senator HEINZ. No, just let me try to pin it down. You're saying, it's hard to say that it's all. You would say that it's some, but you can't say—you don't know whether it's—would you say it's more than 50 percent?

Mr. DRAPER. What I'd like to do is answer your question in the context of seeing a problem in one of the biggest market areas of our exporters, seeing a problem that Brazil currently faces and which Mexico faced in spades a year ago. And then saying that you don't stand by and don't do anything about it, in order to save a market. What we really are trying to do is save a market for our exporters.

So the answer is more in the deterioration of the market that our exporters are trying to ship to. In 1981, in Brazil our activity was about \$444 million. That dropped to \$347 million in 1982 and in 1983 to \$235 million.

In Mexico, it is a worse situation. It's gone from \$1.8 billion to \$1.4 billion, to this year annualized at \$550 million. And when that happens, we know that we are just the tip of the iceberg. We're very small. We finance a very small portion of the exports to these markets. As you know, the commercial banks take the major role. The commercial banks have said they are refusing to go any further in this market. And they're backing away, unless we did something we felt that we should stimulate them. And I think this is important in the whole context of this. Stimulate the banks to come in with further funds to help fill a gap which Brazil has currently, and we've discussed already, about a \$10 billion gap. And our portion of that is \$1.5 billion in Brazil's case. Well, that \$1.5 billion is all insurance. It's got to be exports to go forward, and if we don't use it all, if we don't have to use it all, so much the sadder. But we've said up to \$1.5 billion. We want our exporters to have a facility to go to, to say, "Yes, we can export. Yes, we can get financing."

Senator HEINZ. I think all three of you really testified as to that point, initially, but I wanted to nail it down to the additionality. And I know the Treasury Department and the Commerce Department—

Mr. LELAND. The answer is yes.

Senator HEINZ [continuing]. Have both done studies on the subject.

Mr. LELAND. The answer to your question is yes.

Senator HEINZ. Yes, what? Yes, all? Yes, some?

Mr. LELAND. Yes, all.

If you don't have sufficient financing and you don't put the entire package together for Mexico and Brazil, the whole thing doesn't come together.

Senator HEINZ. Let me ask you, with respect to the potential \$2 billion worth of exports here. Making the assumption, nonetheless, with the country financing, or the liquidity solution, and it goes through—If he agrees to the necessary conditions, the banks do what the banks have to do, which is to hang there presumably with reservations of some degree of wanting to back up some additional exports to Brazil.

Are you saying, Mr. Leland, that this \$2 billion will support under the conditions just stipulated, all exports that simply would not have been made?

Mr. LELAND. Yes.

Senator HEINZ. All right. Secretary Olmer.

Mr. OLMER. I believe not only will it do that, but additionally, the \$2 billion could be recycled four times over, if all of it is used in short-term arrangements. If that happens, you probably have the possibility of 200,000 jobs for Americans.

Senator HEINZ. All right. Thank you. Senator Proxmire.

IMF AND EXIMBANK ARE INTERCONNECTED

Senator PROXMIRE. Mr. Leland, as Assistant Secretary of the Treasury you are particularly concerned with the IMF. Of course, Secretary Regan has testified here. I think he has done an excellent job in very adverse circumstances in moving on that goal. As you know, I strongly support the IMF bill.

That's big, not because we provide \$8 billion, but because the whole package is \$40 billion, and if we don't contribute to it, it's going to make it very difficult for other countries and extremely embarrassing for this country.

So I want to ask you, what effect do you think that this \$2 billion guarantee will have, especially in the House, where it's very close, in getting the \$8 billion IMF bill through. Why should a Congressman who's already skeptical of the IMF bill be willing to vote for it when the Eximbank has just provided \$2 billion in guarantees for Brazil or Mexico, two of the countries that will be the principal beneficiaries of the IMF and both of which are particularly important to us, especially Mexico.

Mr. LELAND. Actually, Senator, I think the fact is that Eximbank is set up to support our exports. I think that the Congress is supportive of the Eximbank. It has supported our exports. In many cases Congress has granted more money than the administration has asked for. I think basically this is exactly where you need an Export-Import Bank, namely when there is a contraction of credit. You want to keep up the financing for our own exports. As I said in my testimony, this is tied to our exports.

Senator PROXMIRE. There's a contradiction here. One of the problems with the IMF, one of the arguments against it is that it would tend to reduce our exports if they imposed austerity requirements, which they of course have to do.

Now the IMF imposes austerity requirements in order to get the balance of payments in adjustment for a country like Mexico or Brazil. We then come along, and say, "Well, we are going to lose a lot of jobs in this country if you follow that austerity requirement that strictly, so we're going to provide a guarantee for our exports so that you can be austere elsewhere but not with us."

Isn't that likely to contradict the discipline which we've been working out with Mexico and is likely to be to some extent reduced for Brazil?

Mr. LELAND. You supported the IMF Senator.

In any event, the IMF doesn't impose austerity. The market imposes the austerity and the IMF pushes it. If we lent to Mexico before an IMF program, their imports dropped much more precipitously. The only thing that allowed them to go back up again was an IMF program.

Likewise with these exports. If there is no IMF program we would not be financing exports. If there were no IMF program,

there would be no adequate adjustment process going on, and without it there'd be no reasonable assurance of repayment.

So the fact is that they are interconnected.

Now your question was a good one. Part of what you're asking is whether we are having them import more than the IMF wants them to? They have to keep within the IMF targets. To make it very clear, the IMF does not tell people you've got to import less and export more.

They tell you they have domestic targets, they have exchange rate targets which would end up meaning fewer imports and more exports. Basically, however, they don't specify import and export targets.

As long as these countries keep up with the targets set by the IMF, they should continue imports.

Senator PROXMIRE. I beg your pardon, I got off on a tangent here.

What I am mainly concerned about is, have you given consideration to the effect of this action here on the IMF bill's fate in the House and the Congress as a whole? Do you think it will not jeopardize the IMF bill?

Mr. LELAND. Honestly, I don't see why this action to support our exports should jeopardize the IMF; to the contrary.

Obviously those who are against the IMF don't see it the same way we do. But one would say here—as Mr. Olmer pointed out, we are talking about several billion dollars' worth of U.S. exports.

Senator PROXMIRE. See, my problem is that usually in these cases we're trying to persuade the person in the middle. What about the person who has not made a firm commitment for or against the IMF bill. Isn't he likely to be swayed by the fact that one of the reasons he was leaning toward the IMF bill was that Mexico is very important to us. Now the Eximbank is removing that justification. That's the problem.

Mr. LELAND. The point is that Mexico is still important, and it's still important to have IMF. Without the IMF you couldn't have this Eximbank program because you wouldn't be supporting exports to a country if it wasn't going through an adjustment process. You wouldn't start.

One of the conditions of this Eximbank support is that Brazil or Mexico be in compliance with the IMF program. Without it, they don't have any U.S. exports.

Once an IMF program is in place, it is appropriate for the country to have exports from the United States. That's what Export-Import Bank does, support U.S. exports.

I think it is not inconsistent to say that, in some cases, if you have an Eximbank program then you don't need the IMF. I will say you do need the IMF in the case of the countries that need an adjustment before you have an Eximbank.

INSURANCE POLICIES SHOULD HAVE CONGRESS APPROVAL

Senator PROXMIRE. Let me move ahead. I know Mr. Olmer would like to comment on this, but I have very limited time.

Mr. Draper, section 2(b)(3) of the Export Import Bank Act provides:

No loan or financial guarantee or combination thereof that equals or exceeds \$100 million shall be finally approved by the board of directors of the Bank unless in such case the Bank had submitted to Congress with respect to such loan, financial guarantee, or combination thereof, a detailed statement describing and explaining that transaction at least 25 days of continuous session of the Congress prior to date of final approval.

The section further provides that such statements shall contain a brief description of the purposes of the transaction, the identity of the party requesting the loan or financial guarantee, the nature of the goods or services to be exported, and the use for which the goods or services are to be exported, and there be a full explanation of the reasons for bank financing the transaction, the amount of the loan to be provided by the Bank, the approximate rate of repayment terms at which such loans could be made available, and finally, the approximate amount of the financial guarantee.

Now on August 17 you informed us in writing that action pursuant to section 2(b)(3), you were informing the Congress that the Bank has prepared to authorize loan guarantees insurance, up to half a billion dollars for Mexico and \$1.5 billion to Brazil.

On August 23 I wrote to you indicating your August 17 submission, pursuant to section 2(b)(3), was inadequate and that it did not describe the nature of the goods or services to be exported or other information required by law.

On September 1 you wrote back and said, and I quote,

The statutory language and the legislative history make it clear that Section 2(b)(3) was intended to apply to project financing, long-term credits and financial guarantees which could have a measurable effect upon the U.S. economy.

Well, as I quoted above, the act itself does not talk about being limited to project financing. In fact, it called for a description of the nature of the goods or services to be exported. I think you had it right in your August 17 letter.

How can you contend now that section 2(b)(3) is not applicable in view of the clear statutory language that I read to you and that you previously stated did apply?

Mr. DRAPER. Well, to start with, I'm not a lawyer, so I'm not even going to try to get too specific, but my General Counsel has written something for the record and I'd like to enter that.

Senator PROXMIRE. You'll provide that for the record?

Mr. DRAPER. Yes, sir.

[Information supplied for the record follows:]



EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

OFFICE OF THE
GENERAL COUNSEL

September 14, 1983

CABLE ADDRESS "EXIMBANK"
TELEX 89-481

Robert H. Hunter, Jr., Esq.
Assistant General Counsel
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Hunter:

In your letter of August 30, you indicated that you had received a letter from Senator Proxmire inquiring into the legality of guarantee and insurance facilities (Facilities) which Eximbank is prepared to approve for Brazil and Mexico. Before replying to the Senator, you have requested our views on whether Eximbank's statements of August 17 notifying the Facilities to Congress are in compliance with the requirements of Section 2(b)(3) of the Export-Import Bank Act of 1945, as amended (Act).

After reviewing both the statutory language and the legislative history to Section 2(b)(3), Eximbank has concluded that it is not legally required to notify the Facilities to Congress. However, even if the Bank were required to do so, detailed statements have been provided to Congress in full compliance with the Section.

I. Eximbank is not required to notify the Facilities to Congress under Section 2(b)(3).

Section 2(b)(3) requires notification to Congress of any "loan or financial guarantee or combination thereof (i) in an amount which equals or exceeds \$100,000,000..." The detailed statement specified by the Section also expressly refers to "loan" or "financial guarantee." (See Section 2(b)(3)(A) and (B)) The phrase "loan or financial guarantee" is not synonymous with Eximbank financial assistance in general. When Congress wishes to refer to the full range of Eximbank activities, it uses such phrases as "...Eximbank is directed in the exercise of its functions to provide guarantees, insurance, and extensions of credit..." (Section 2(b)(1)(A) of the Act) or, "...The Bank in the exercise of its functions shall not guarantee, insure, or extend credit, or participate in any extension of credit..." (Section 2(b)(2) of the Act).

In Section 2(b)(3), Congress used the phrase "loan or financial guarantee", to refer only to the types of financial assistance that Eximbank makes available under its direct lending program -- i.e., long-term loans extended by Eximbank directly or guarantees of long-term loans extended by commercial banks often in transactions where Eximbank itself is also making a direct loan.

The applicability of Section 2(b)(3) was limited to these kinds of financial assistance, because they are usually provided for transactions involving projects. As the legislative history of the Section makes clear, the reason for limiting its applicability in this way was that project financing alone has measurable effects upon the U.S. economy. In introducing the Senate compromise in 1974 which became Section 2(b)(3), Senator Stevenson pointed out:

First, congressional review of major Eximbank loans with provision for disapproval is deleted. In its place is prenotification to the Congress of all major transactions -- both loans and guarantees which separately or in the aggregate equal or exceed \$60 million -- together with a detailed impact statement assessing the effect of the proposed transaction on the national security and economy of the United States. To be included is an assessment of the effect on such matters as: First, employment in the United States; second, the competitive position of U.S. industries; third, shortages and fourth, technology transfers. (Emphasis added) (Congressional Record, S.17151, September 19, 1974)

In 1978, Congress amended Section 2(b)(3) in two ways. First, it eliminated the possibility that lengthy congressional adjournments could delay approval of transactions which had to be notified to Congress. As the Senate Report noted, "The Bank and U.S. exporters have expressed concern that lengthy congressional adjournments sine die would result in lengthy delays in Bank approval of major projects." (Emphasis added) (Senate Report No. 95-844 at 6) Second, Congress increased the threshold amount for notification from \$60 to \$100 million. Again, the Senate Report noted, "The purpose of the \$60 million threshold adopted in 1974 was to enable Congress to review very large Bank-supported projects which could have major economic and foreign policy ramifications." (Emphasis added) (Id.)

Although the Facilities -- \$1.5 billion in the case of Brazil and \$500 million in the case of Mexico -- are of the magnitude associated with project financing under the Bank's direct loan program, they actually represent the aggregate of numerous individual export sales of the kind that Eximbank routinely covers under its short- and medium-term guarantee and insurance programs. As the Chairman of Eximbank pointed out to Senator Proxmire in his letter of September 1, a copy of which is enclosed, individual transactions under the Facilities may consist of pieces of equipment with contract values of as little as a few thousand dollars.

As a result, Eximbank was not legally required to notify the Facilities to Congress under Section 2(b)(3) of the Act. However, Eximbank has always recognized the oversight functions of the Banking Committees of both Houses of Congress, and in view of the magnitude of the Facilities, we believe that it has been appropriate for us to keep these Committees fully informed with regard to specific statutory reporting provisions.

II. Even if Eximbank were required to notify the Facilities to Congress under Section 2(b)(3), it fully complied with all statutory requirements.

Congressional notification to Congress under Section 2(b)(3) consists of a detailed statement which "shall contain (A) a brief description of the purposes of the transaction, the identity of the party or parties requesting the loan or financial guarantee, the nature of the goods or services to be exported, and the use for which the goods or services are to be exported; and (B) a full explanation of the reasons for Bank financing of the transaction, the amount of the loan to be provided by the Bank, the approximate rate and repayment terms at which such loan will be made available and the approximate amount of the financial guarantee."

All of this information was contained in the statements sent to Congress on August 17, copies of which are enclosed. However, they were considerably shorter than other Eximbank notifications, because they involve transactions of a different nature from those usually notified. Since they do not involve project financing, less information will be available to Eximbank at the time of authorization. As we emphasized in our letter of September 1 to Senator Proxmire, the Facilities will be available only in support of specific U.S. exports. They in no way constitute an advance of funds to Brazil or Mexico or balance of payments financing to the governments of either country. The transactions being supported under the Facilities will be monitored in the same way as all of our exporter credit transactions. The Facilities are entirely consistent with Eximbank's long-standing practice of offering insurance and guarantees to commercial banks and exporters in advance of commitments by foreign purchasers to buy specific U.S. exports.

The Facilities will enable U.S. banks to establish lines of credit with Brazilian and Mexican financial institutions to finance specific U.S. exports. The commercial banks will be covered against the risks of non-payment under Eximbank's guarantee and insurance programs. Brazilian and Mexican purchasers will then be able to place orders for U.S. goods and services with the knowledge that a reliable source of financing is

already in place. This procedure is consistent with Eximbank's traditional practice under its short- and medium-term guarantee and insurance programs. The only difference arises from the fact that the Facilities will be in place for one year to support the overall flow of U.S. exports to Brazil and Mexico.

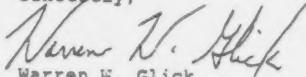
In summary, we have provided Congress with virtually all the information that is normally available on short- and medium-term guarantee and insurance transactions. The legislative history reveals that the detailed statement specified by Section 2(b)(3) was not intended to be a rigid requirement but rather to take into account the specific nature of the transaction being notified. In co-introducing the compromise version in the Senate which ultimately became Section 2(b)(3), Senator Packwood noted:

At the same time, we in Congress must be sensitive to the limitations of the Bank in its ability to report to us on individual loans and guarantees under the provisions of these amendments. We must be realistic in our expectations. Certain information that will be made available to Congress will be, at best, an approximation. For instance, the reporting requirement has the Bank outlining the terms and conditions of the proposed loan and loan guarantee. Under the Bank's current method of floating its interest rate as well as the percent of participation, in short, of tailoring their participation terms and conditions to each individual case, they simply will often be unable to pinpoint with a degree of certified precision exactly what the terms and conditions of a particular loan package will be 30 days in advance of their decision. They will, of course, be called upon to furnish as nearly precise information as is available. (Congressional Record, S.17152, September 19, 1974)

We would also like to emphasize that the event triggering the running of the 25-legislative day waiting period should be the initial submission of the statement to Congress. This is consistent with all previous notifications to Congress since Section 2(b)(3) was first enacted in January, 1975. Moreover, if a Senator or Congressman could toll the running of the period or force it to begin again by submitting requests for further information, the waiting period might never end. The result could be a Congressional veto of a proposed transaction of the most egregious type since it could be implemented by a single Congressman. Questions of constitutionality aside, as Senator Stevenson pointed out, "...this provision does not provide a vehicle for congressional veto..." (*Id.*, S.17151)

I hope that our views will be of assistance to you in formulating a response to Senator Proxmire's letter. Please do not hesitate to contact me at 566-8334 or members of my staff, if you have any further questions.

Sincerely,


Warren W. Glick
General Counsel

Enclosures



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

August 17, 1983

CABLE ADDRESS "EXIMBANK"
TELEX 88-481

Dear Mr. President:

Pursuant to Section 2(b)(3) of the Export-Import Bank Act of 1945, as amended, Eximbank hereby submits a statement to the United States Senate with respect to the following transaction involving U.S. exports to Mexico.

A. Description of Transaction

Eximbank is prepared to authorize guarantees and insurance (Facility), up to \$500,000,000, to assist the Government of Mexico in the purchase in the United States and export to Mexico of goods and services of U.S. manufacture or origin.

The obligor under the Facility will be the Government of Mexico, or a government agency on behalf of or with the guarantee of the Government. Repayment terms will be appropriate to the export transactions under the Facility. The availability date of the Facility will be September 30, 1984. Prior to the utilization of the Facility, the following conditions shall be met to the satisfaction of Eximbank: (1) Mexico shall be in compliance with its International Monetary Fund Extended Fund Facility; (2) commercial banks shall have established an additional financing program for Mexico; (3) other creditor nations shall have made commitments to provide comparable financial support; and (4) the bilateral and implementing agreements between the United States and Mexico pursuant to the multilateral debt rescheduling of June 22, 1983 shall have been signed.

B. Explanation of Eximbank Financing1. The Mexican Economic Problem

Mexico's 1982 economic crisis forced the adoption of a severe domestic austerity program and an adjustment of the economy to conform to fiscal and balance of payments constraints. This domestic program was supported by a comprehensive financing program involving new credits provided by the International Monetary Fund and commercial banks, along with a rescheduling of public and private sector debt. For Mexico, these measures have meant falling output, rising unemployment, declining standards of living and plummeting imports.

Now, one year after the 1982 crisis, the benefits of these programs are beginning to emerge, and Mexico appears to be on the threshold of an upswing. The Facility will strengthen the Mexican recovery effort by acting both as a catalyst for continuing support by the international financial community and as a secure source of financing for U.S. exports.

2. Impact on U.S. Employment

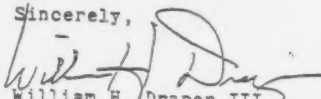
Mexico, as one of the largest nations in the world economy in terms of population, industrial output, and oil production and reserves, is a major market for U.S. exports. These exports involve a broad cross-section of the U.S. economy, including food, chemicals, manufactured goods, machinery, and transportation equipment. In 1981, Mexico's purchases abroad totalled some \$24 billion, of which \$17.4 billion came from the U.S.

As a result of Mexico's retrenchment program, U.S. exports to Mexico declined by 37% in 1982, a loss to the U.S. economy of over \$6 billion. Using the Department of Commerce calculation that \$1 billion in exports equates to 25,000 jobs, this decline involves a loss of some 160,000 jobs. Although the 1982 decline in exports covers a wide range of items, about 53% of the downturn was concentrated in machinery and transport equipment. Data for the first five months of 1983 indicate that U.S. exports to Mexico will be even lower this year, thereby further jeopardizing employment in the U.S.

The Facility described above will have a favorable impact on employment for substantial numbers of United States workers, as well as on the United States balance of trade. In addition, the Facility will strengthen the Mexican economic recovery as part of a comprehensive package of financial assistance from the International Monetary Fund, commercial banks and other creditor countries.

Attached is certain additional information on Eximbank activity in and economic data on the country involved in this transaction.

Sincerely,


William H. Draper III

The Honorable
George Bush
President of the Senate
S-212, U. S. Capitol
Washington, D.C. 20510

Attachment

August 15, 1983

Eximbank Exposure - Mexico

As of July 31, 1983, Eximbank Exposure in Mexico involved:

	<u>U.S. \$ Millions</u>
Short term	\$ 119
Medium term	273
Long term	<u>2,085</u>
	\$2,477

Economic Data - Mexico

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Gross Domestic Product (\$ billions)	\$ 210	266	183
Percentage Change in Real GDP	8.3	8.0	-0.2
Public Sector Deficit as % of GDP	7.7	14.8	18.6
Percentage Change in Money Supply	33.1	32.8	62.9
Percentage Change in Consumer Price Index	29.8	28.7	98.8
Trade Balance (\$ billions)	-\$1.7	-3.1	7.7
External Current Account (\$ billions)	-\$7.7	-13.9	-3.0
Overall Balance of Payments (\$ billions)	\$0.9	1.1	-6.3
External Debt (\$ billions)	\$ 51	75	83
Debt Service as % of Exports of Goods and Services	45	51	60



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

August 17, 1983

CABLE ADDRESS "EXIMBANK"
TELEX 86-481

Dear Mr. President:

Pursuant to Section 2(b)(3) of the Export-Import Bank Act of 1945, as amended, Eximbank hereby submits a statement to the United States Senate with respect to the following transaction involving U.S. exports to Brazil.

A. Description of Transaction

Eximbank is prepared to authorize guarantees and insurance (Facility), up to \$1,500,000,000, to assist the Government of Brazil in the purchase in the United States and export to Brazil of goods and services of U.S. manufacture or origin.

The obligor under the Facility will be the Government of Brazil, or a government agency on behalf of or with the guarantee of the Government. Repayment terms will be appropriate to the export transactions under the Facility. The availability date of the Facility will be September 30, 1984. Prior to the utilization of the Facility, the following conditions shall be met to the satisfaction of Eximbank: (1) Brazil shall be in compliance with an International Monetary Fund Extended Fund Facility; (2) commercial banks shall have established an additional financing program for Brazil; and (3) other creditor nations shall have made commitments to provide comparable financial support.

B. Explanation of Eximbank Financing1. The Brazilian Debt Problem

Brazil faces a severe financing gap during the balance of 1983 and in 1984 that threatens to cause a precipitous contraction in trade. Recent data indicate that commitments are still lacking for \$9 to 10 billion in additional support to meet Brazil's needs through 1984.

Brazil and its public and private creditors are now in the process of developing a new program to provide the \$9 to \$10 billion in additional financing needed to close this gap. The Facility described above will be an integral part of this program, to be provided in conjunction with the efforts of export credit agencies of other creditor countries, multilateral institutions, as well as commercial banks. The Facility will assist

Brazil in sustaining a level of exports from the U.S. which are essential to Brazil's economic health and, at the same time, are important sources of employment in the U.S.

2. Impact on U.S. Employment

Brazil is a major market for U.S. exports, involving a broad cross-section of the U.S. economy, including food, chemicals, manufactured goods, machinery, transportation equipment, and coal. In 1981, U.S. exports to Brazil amounted to \$3.7 billion. Using the Department of Commerce calculation that \$1 billion in exports equates to 25,000 jobs, these exports to Brazil provided employment for over 90,000 Americans. In 1982, because of growing Brazilian economic problems, U.S. exports dropped to \$3.4 billion, equating to a loss of 7,500 jobs. Projections for 1983 suggest that U.S. exports to Brazil could decline even further, to less than \$2.8 billion, thereby jeopardizing an additional 15,000 jobs.

The Facility described above will have a favorable impact on employment for substantial numbers of United States workers, as well as on the United States balance of trade. In addition, the Facility will assist Brazil in closing its financial gap as part of a comprehensive package of financial assistance involving the International Monetary Fund, commercial banks and other creditor countries.

Attached is certain additional information on Eximbank activity in and economic data on the country involved in this transaction.

Sincerely,


William H. Draper III

The Honorable
George Bush
President of the Senate
S-212, U. S. Capitol
Washington, D.C. 20510

Attachment

August 15, 1983

Eximbank Exposure - Brazil

As of July 31, 1983, Eximbank Exposure in Brazil involved:

	<u>U.S. \$ Millions</u>
Short term	\$ 47.0
Medium term	92.7
Long term	<u>1,407.9</u>
	\$1,547.6

Economic Data - Brazil

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Gross Domestic Product (\$ billions)	\$ 283	302	320
Percentage Change in Real GDP	7.9	-3.5	0.1
Public Sector Deficit as % of GDP	8	12	14
Percentage Change in Money Supply	71	75	72
Percentage Change in Consumer Price Index	83	105	98
Trade Balance (\$ billions)	-2.8	1.2	0.8
External Current Accounts (\$ billions)	-12.4	-11.0	-14.5
Overall Balance of Payments (\$ billions)	-3.4	0.8	-7.5
External Debt (\$ billions)	63	71.9	81.3
Debt Service as % of Exports of Goods and Services	61	66	85



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

September 1, 1983

CABLE ADDRESS "EXIMBANK"
TELEX 84461

Dear Senator Proxmire:

In your letter of August 23, 1983, you expressed your concern over the guarantee and insurance facilities (Facilities) which Eximbank is prepared to approve for Brazil and Mexico. I welcome the opportunity to respond to your questions and to provide you with additional information.

The Facilities will consist of medium-term guarantees and short- and medium-term insurance to be provided under Eximbank's exporter credit programs. Although the Facilities -- \$1.5 billion in the case of Brazil and \$500 million in the case of Mexico -- are of the magnitude associated with project financing under the Bank's direct loan program, they actually represent the aggregate of numerous individual export sales of the kind that Eximbank routinely covers under its short- and medium-term guarantee and insurance programs. Individual transactions under the Facilities may consist of pieces of equipment with contract values of as little as a few thousand dollars.

I would also like to emphasize that the Facilities will be available only in support of specific U.S. exports. They in no way constitute an advance of funds to Brazil or Mexico or balance of payments financing to the governments of either country. The transactions being supported under the Facilities will be monitored in the same way as all of our exporter credit transactions. The Facilities are entirely consistent with Eximbank's long-standing practice of offering insurance and guarantees to commercial banks and exporters in advance of commitments by foreign purchasers to buy specific U.S. exports.

The Facilities will enable U.S. banks to establish lines of credit with Brazilian and Mexican financial institutions to finance specific U.S. exports. The commercial banks would be covered against the risks of non-payment under Eximbank's guarantee and insurance program. Brazilian and Mexican purchasers will then be able to place orders for U.S. goods and services with the knowledge that a reliable source of financing is already in place. This procedure is the same as that used under Eximbank's traditional practice, with the only difference being that the mechanism will be in place for one year to support the normal flow of exports from the United States to Mexico and Brazil.

In our statements to the Congress dated August 17, 1983, we noted the categories of U.S. exports that could be supported under the Facilities consist of food, chemicals, manufactured goods, machinery, transportation equipment and, in the case of Brazil alone, coal. For your information, I am enclosing a more detailed list of products which are likely to fall within these categories. The appropriate term of repayment has also been noted for each product type.

Financing in the form of the Facilities is needed by U.S. exporters. Data recently released by the Commerce Department concerning U.S. exports to Brazil and Mexico in the first half of 1983 indicate that both countries have sharply cut their purchases from the United States. The corresponding adverse impact on U.S. employment will be significant. As I mentioned in our statements to Congress, the reduction in U.S. exports to Brazil and Mexico in 1982 has already caused a substantial loss of American export-related jobs.

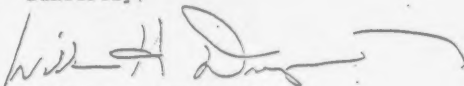
The decision to proceed with the Facilities at this time is based upon both a desire to make the most effective use of the budgetary resources available to Eximbank in FY 1983 and 1984 as well as a recognition of the adverse impact on the U.S. economy of the current serious economic and financial problems of Brazil and Mexico. The Facilities will complement the efforts by the International Monetary Fund, since their utilization is expressly conditioned upon IMF assistance being arranged with Brazil and Mexico for balance of payments purposes. Eximbank will also require that additional financing be available from both commercial banks and other creditor countries, so that the international financial community will share the burden of financing for Brazil and Mexico.

In your letter you questioned the sufficiency of our previous statements on Brazil and Mexico. These statements as well as this letter provide Congress with virtually all the information that is normally available on short- and medium-term guarantee and insurance transactions. Moreover, we would like to note that since the Facilities are comprised of individual short- and medium-term exporter credit guarantee and insurance transactions, we do not believe that Eximbank is legally required to notify them to Congress at all. Both the statutory language and legislative history make it clear that Section 2(b)(3) of the Export-Import Bank Act of 1945, as amended, was intended to apply to project

financing -- long-term direct credits and financial guarantees which could have a measurable effect upon the U.S. economy. However, Eximbank has always recognized the oversight functions of the Banking Committees of both Houses of Congress, and in view of the magnitude of the Facilities, we believe that it is appropriate for us to keep these Committees fully informed without regard to specific statutory reporting provisions.

I hope that this information will be of use to you. Please do not hesitate to contact me or members of my staff, if we can be of any further assistance to you.

Sincerely,



William E. Draper III

The Honorable
William Proxmire
United States Senate
Washington, D.C. 20510

Enclosure

cc: The Honorable
Charles A. Bowsher
Comptroller General
of the United States

Detailed List of Exports and Normal Term of Financing

Food - 180 days, except as noted

Live animals (breeding stock - up to 3 years), dried, salted, smoked meat
 Dairy products, including milk, cream, cheese
 Fish, including shellfish and frozen, salted, dry, pickled or smoked fish
 Cereals, including wheat, rice, corn, flour, meal, groats (bulk agricultural commodities - up to 360 days)
 Vegetables and fruits
 Sugar, honey, syrups, molasses
 Animal feed
 Miscellaneous food preparations
 Tobacco

Chemicals

Fertilizer - 360 days
 Synthetic resins - 180 days
 Synthetic rubber - 180 days
 Plastic materials - 180 days

Manufactured goods - 180 days, except as noted

Leather
 Tires and tubes
 Cork and wood manufactures
 Paper, paperboard
 Yarn, fabric, textile articles
 Iron and steel
 Nonferrous metals
 Manufactures of metal - up to 5 years

Machinery - up to 5 years

Power generating machinery
 Specialized industrial machinery
 Metalworking machinery
 Office machines
 Industrial machinery
 Telecommunications and sound reproduction equipment

Transportation Equipment - up to 5 years, except as noted

Road vehicles
 Railway equipment
 General aviation aircraft - up to 7 years
 Ships, boats

Coal - 180 days



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

OFFICE OF THE
GENERAL COUNSELCABLE ADDRESS "EXIMBANK"
TELEX 88-461

September 15, 1983

Robert H. Hunter, Jr., Esq.
Assistant General Counsel
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Hunter:

Members of your staff have asked a further question regarding the legality of guarantee and insurance facilities (Facilities) which Eximbank is prepared to approve for Brazil and Mexico. Specifically, we have been asked whether Eximbank possesses enough information about the Facilities to charge them against its guarantee authority at the time the Board finally approves them. We believe that Eximbank possesses the necessary information for the reasons set forth below.

In answering this question, it must be kept in mind that under long-settled practice, Eximbank has always charged a guarantee as of the date of authorization and not when the guarantee agreement is executed. A legal memorandum on this point is enclosed for your information.

Eximbank's guarantee authority is charged when a firm commitment is made by the Board to provide financial assistance in support of a particular transaction or transactions involving U.S. exports. Based upon that commitment, the parties involved -- the U.S. supplier, lender, borrower and guarantor -- will enter into binding agreements which will result in Eximbank's guarantee becoming effective at such time as certain conditions are met -- i.e., when eligible U.S. exports are shipped and other conditions are satisfied. Thus, when the Facilities are approved, Eximbank will make commitments to the Governments of Mexico and Brazil. Based upon those commitments, the Governments will enter into negotiations with U.S. banks to arrange for the loans to be guaranteed by Eximbank. They will also determine the actual borrowers on the loans.

At each stage of this process, the amount of information needed by Eximbank will differ. Clearly, the degree of specificity needed to charge the guarantee against the Bank's guarantee authority is much less than what is needed to execute the actual guarantee agreement when all the legal obligations arising among the parties are spelled out in detail.

For purposes of charging its guarantee authority, Eximbank needs only the information that it is required to have by statute before it can finally approve a transaction. Under Section 2(b)(1)(B), the Bank's financial assistance must be for specific purposes and the Board of Directors must be able to find reasonable assurance of repayment. Basically, these directives require the Bank to determine the purpose of the transaction, the general identity of the borrower and/or guarantor, the nature of the goods or services to be exported and overall repayment terms.

With respect to the Facilities, Eximbank already possesses all the information needed to give final approval to them. This information has also been set forth in Eximbank's statements to Congress of August 17 and September 1. Specifically, the Facilities will be used for food, chemicals, manufactured goods, machinery, transportation equipment and in the case of Brazil, coal. Consistent with the overall operation of Eximbank's Exporter Credit and Guarantee Programs, the identity of the local purchaser and even the exact nature of the U.S. exports may not be known until the exports are shipped.

The obligors under the Facilities will be the Governments of Mexico and Brazil respectively, or a government agency on behalf of or with the guarantee of either Government. Reasonable assurance of repayment can be found even without knowing the exact obligor or guarantor, because both Facilities will be treated as sovereign risk transactions -- i.e., the full faith and credit of the Governments of Mexico and Brazil will be pledged for the repayment of any obligations guaranteed or insured by Eximbank with the particular entity receiving the loan no more than a conduit through which financing will flow to the local purchaser of the U.S. exports.

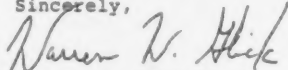
In this connection, I would also point out that as long as the full faith and credit of the governments continues to be pledged, changes could be made in the nature of the obligors and/or guarantors without requiring a new charge against Eximbank's guarantee authority, even after the guarantee and insurance agreements have been executed. Since the purpose, recipient and nature of the guarantees or insurance extended under the Facilities would in effect remain the same, we believe that such a conclusion is consistent with the Decision of the Comptroller-General of the United States, B-189712, September 23, 1981.

Repayment terms for the Facilities will be the terms appropriate under international practice for the exports to be covered by Eximbank's guarantees or insurance. Finally, the availability of the Facilities will be September 30, 1984.

In summary, the Bank already possesses all the information it needs in order to charge the Facilities against its guarantee authority at such time as the Bank is prepared to give final approval to them.

I hope that our views will be of assistance to you. Please do not hesitate to contact me at 566-8334 or members of my staff, if you have any further questions.

Sincerely,



Warren W. Glick
General Counsel

Enclosure

January 3, 1980

MEMORANDUM

Re: Meaning of Term "Obligations" for Purposes of Limitations on Eximbank Program Activities Contained in Future Annual Foreign Assistance and Related Programs Appropriations Acts

In the Foreign Assistance and Related Programs Appropriations Act for Fiscal 1980, the limitation on Eximbank's program activities is set forth as follows: "Not to exceed \$ shall be authorized during the current fiscal year for other than administrative expenses." In the future, in accordance with Section 31.5 of Circular A-11 entitled "Preparation and Submission of Budget Estimates" such language will be replaced by the following sentence which must now be included in the appropriations text for each appropriation or fund account that covers a direct loan or loan guarantee program: "During FY19 and within the resources and authority available gross obligations for the principal amount of direct loans shall not exceed \$." (Emphasis added.)

The question arises as to the meaning of the term "obligations". For the reasons set forth below, the undersigned concludes that the term "obligations" may be interpreted to refer to authorizations by the Board of Directors of loans or loan guarantees, and in submitting requests for limitations on program activities, the Chairman of Eximbank may report that any statement of loan authorizations constitutes valid obligations.

Eximbank has consistently charged every loan or loan guarantee authorized by the Board against its lending authority as of the date of authorization. In addition, limitations on program activities as provided in the Appropriations Act have always been considered to apply as of the date of authorization. The Bank considers itself to have committed funds for a loan, and hence legally liable, when it is authorized by the Board of Directors. Following authorization, the Bank issues a written commitment or a letter of advice to the applicant and is prepared to disburse funds, subject only to the negotiation and execution of a loan agreement containing

the general terms and conditions that have already been authorized. Essentially, the loan agreement does no more than formalize the commitment contained in the authorization. More importantly in budgetary terms, the Bank considers that funds that have been authorized cannot be used for any other purpose.

The letter of advice is executed with the expectation that the applicant and supplier will be relying upon it and that they will proceed to initiate such steps as may be necessary to comply with the terms and conditions specified in it. Both the applicant and U.S. supplier often materially change their positions in reliance on the Bank's commitment. The applicant may proceed to place firm orders for goods and services; obtain exchange assurances, import permits and other legal documents; arrange for security; or proceed to issue and sell additional equity stock or subordinate debentures. For his part, the supplier will begin to manufacture items and may incur substantial costs for which he will be reimbursed subsequently by means of disbursements under the Eximbank loan.

Under Section 200(a) of Title 31 of the United States Code, "no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of ... (2) a valid loan agreement, showing the amount of the loan to be made and the terms of repayment thereof... or (8) any other legal liability of the United States against an appropriation of fund legally available therefor."* There seems to be little argument that by the time the Eximbank loan agreement is signed, the Eximbank loan would constitute a commitment for purposes of this section. The question is raised as to whether the loan constitutes a commitment for purposes of this section before the signing of the loan agreement. Based upon the reasons outlined above, it is clear that Eximbank regards a legal liability as having been created at the time of the authorization with the written commitment or letter of advice constituting documentary evidence of that liability.

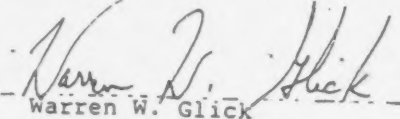
*Although the argument has been made in the past that §200 only applies to agencies using appropriated funds, it has been Eximbank's consistent practice nevertheless to observe the provision.

Moreover, the language of the statute does not suggest that the documentary evidence of the obligation must always be created simultaneously with the obligation.* In fact, in contrast to subsection (2), subsection (1) of Section 200 refers to obligations which are evidenced by a "binding agreement in writing... executed before the expiration of the period of availability for obligation of the appropriation or fund concerned..." (Emphasis added). Subsection (2) does not contain any such qualification. Consequently, the argument can be made that under subsection (2) the authorization of a loan by Eximbank is an obligation, because a valid loan agreement will subsequently provide documentary evidence of it. However, there is always the possibility that the loan may be cancelled. (The exercise by the applicant of its right to cancel or the exercise by Eximbank of any of its rights following a breach or other action by the applicant or substantial change in circumstances would not affect the binding nature of the obligation on Eximbank.)

No such possibility exists if the documentary evidence = to support the authorization is considered to be the written commitment or the letter of advice. Once a loan or loan guarantee has been authorized, the written commitment or letter of advice follows unconditionally. Because of the the possibility that a written commitment or letter of advice may not always be sent to applicant the same day as the loan or loan guarantee is authorized, for bookkeeping reasons it seems advisable to charge an authorization against Eximbank's limits as of the date on which the Board acts.

Thus, the authorization of a loan or loan guarantee by Eximbank constitutes an obligation for purposes of Section 200(a) of the Title 31. As such, in accordance with Section 200(b) of Title 31, in connection with the submission of all requests for program limitations to the office of Management and Budget, the Chairman of Eximbank will be able to report that any statement of loan authorizations furnished therewith consists of valid obligations as defined in Section 200(a) of Title 31.

*Since the language originated in an appropriations act, there is virtually no legislative history.


 Warren W. Glick
 General Counsel

Mr. DRAPER. The point, I think, that he would make, though, is that the section that we think this action comes under does not require that we come up before the Congress before approving a variety of insurance and guarantee transactions, and we have done this many times in the past for amounts over \$100 million.

Senator PROXMIRE. You have never done this kind of thing in this particular way since the late 1960's, have you? Haven't you had a period of about 13 or 14 years when you did not provide this kind of generalized assistance?

Mr. DRAPER. You're possibly right on that, but what I'm talking about is an insurance policy. That very language that you read indicates that we must tell you about each product and we can't possibly do that on an insurance policy. We have insurance policies and master guarantees out there which cover thousands of different products, and the terms are different. As a result, we've never tried to do that. We couldn't possibly keep track of it.

Senator PROXMIRE. Well, why don't you come up and ask for a change in the law then? It seems to me that under those circumstances you are just not complying with the provisions of the law. I'll take a look at what your counsel has.

Mr. DRAPER. All right. I think that's a good idea.

In any event, because of the size of this proposal and knowing that you'd be concerned, were the major reasons on our part for notifying you and giving you plenty of chance to discuss it and talk about it, and that's the reason we did bring it to your attention.

Senator PROXMIRE. Well, what's the rationale for setting up a general facility for Eximbank loan guarantees if the purpose of the facility is to assist U.S. exports? Why can't the same purpose be achieved by approving each transaction on a case-by-case basis?

Mr. DRAPER. Yes, it could. The problem really came to focus when a group of coal managers and owners came to me and pointed out that they were extending 30 days and then 60 days and then 180 days, and the credit was running and running and they couldn't afford it anymore; it was getting to be 6 months old and they felt that they had to have insurance in order to ship to Brazil. They were particularly interested in Brazil.

So we made an insurance facility available for them, that allowed them to continue shipping. Most of the largest coal companies in the country were going to have to lose one of their big markets.

Well, this was again the tip of the iceberg. Talking to people on the border towns, they were the first ones to feel it in Mexico; and talking to more and more exporters, we realized they were just cutting off; there was nothing coming from Mexico and Brazil. It was just disappearing.

As a result, we decided that we'd better set up a facility that made it very evident that we are willing to guarantee and insure exports into these two countries, both of which we have a lot of long-term faith in.

Mexico has the second or third largest oil reserves in the world. They're under good management now and they're correcting their problems. Brazil has a lot of short-term problems, no question, as Mexico did a year ago. But in the long term we've had great confidence. So we are making this available.

We went to the Brazilian banks and the Mexican Government-owned banks who are working these facilities with American banks who will then make the loan available. We will insure that American bank that if they don't get paid on time, then we will pay a claim.

If we don't get paid on time, we'll make a claim against the Governments of Brazil or Mexico. This also enables these exporters—us—to get the guarantee from the Brazilian and Mexican Governments, which in turn gives us the confidence to give this insurance and make it available.

It's a large package, I agree. It may not all be used in a year. If only \$500 million is used in Brazil, so be it, but we would prefer that it all be used because it would mean that more exports would come from this country.

Senator PROXMIRE. My time is up. Thank you very much.

Senator HEINZ. Senator Mattingly.

INCREASE IN EXPORTS AND AMERICAN JOBS

Senator MATTINGLY. Mr. Olmer, you were quoted at one time as saying the Latin American debt crisis has worsened America's record merchandise trade deficit as nations in the region try to export more and import less.

Brazil is facing this problem since IMF assistance is conditional upon taking measures to increase exports and reduce imports. Yet the Eximbank assistance is intended to help Brazil finance, thereby increasing U.S. exports to Brazil.

This seems contradictory to me. I mean, how can we explain that Eximbank credit would increase U.S. exports to Brazil and Brazil's inability to meet the IMF criteria?

Furthermore, with Brazil's apparent inability to repay the IMF loan, why should we be able to think they are going to repay an Eximbank loan?

Mr. OLMER. Senator Mattingly, two points. No. 1, the austerity program in Brazil has exceeded their own expectations and the level of restraint that the Government has imposed has cut into the bone, and it has affected the ability of both Brazil and of Mexico to produce goods for export.

We realize, and I believe we have agreement with the Governments in Brazil and Mexico, that that is not in their interest, short-term or long-term.

We are not trying to avoid the disciplines of the IMF program. As Mr. Leland pointed out, the first step is that both countries will have to meet the obligations of that IMF program and of the government itself in imposing import restraint levels, where they reach into the ability of those countries to produce and be productive, to get their economies going again, that's where we want to stimulate them.

As to their ability to repay, what we're talking about is extending credit to private companies, not to the public sector corporations. Those private companies will go to commercial banks in their own countries, Mexico and Brazil, and the private banks will go to the central bank and will ask for a government guarantee.

If they don't repay, we'll stop further loans. It isn't a runaway program, it isn't a giveaway program. It will be done, carefully monitored, and with the backing of the Mexican Government or the loan will not be extended.

Senator MATTINGLY. Do you see anything contradictory in the policy between Eximbank or what we're doing here, lending, which is going to increase exports, versus IMF saying they want them to reduce imports?

Mr. OLMER. I see nothing contradictory in substance. If it were characterized that way without any explanation, surely. But when explained, no I do not.

Senator MATTINGLY. You made the comment about the estimated number in terms of increased U.S. exports and American jobs which would result from spending \$2 billion. Would you mind repeating that for me, how many jobs we're talking about now? Just tell me what you said before. I think you said \$2 billion.

Mr. OLMER. I said if the \$2 billion was used exclusively for short-term 90-day credits that would permit a recycling four times in 1 year. Four times two is eight, and eight times 25,000 jobs for every \$1 billion of exports, conceivably 200,000 American jobs.

Senator MATTINGLY. Well, conceivably do you think that is true? How long would it take to create those jobs, the 200,000 jobs?

Mr. OLMER. Well don't forget that not all contracts undertaken would be performed within the space of 12 months.

Senator MATTINGLY. Then what kind of jobs are you expecting this \$2 billion to create in the first 12 months?

Mr. OLMER. We have estimates of 20,000 to 25,000 jobs in U.S. manufacturing resulting from every \$1 billion.

Senator MATTINGLY. I understand that, but when will this be created?

Mr. OLMER. I couldn't give you the answer to that, Senator.

Senator MATTINGLY. You don't know whether it is going to be 5 years or 1 year?

Mr. OLMER. I think a good number of them will be created in the year in which the production facilities of the United States are used in connection with—

Senator MATTINGLY. Do you think that would happen in the next 2 years?

Mr. OLMER. Yes.

Senator MATTINGLY. Well, what I am getting at is, it would be probably worthwhile to spend \$30 billion on the Eximbank and try to get the unemployment rate down to about 6½ percent with that rationale.

I'm just saying that maybe you're a little over optimistic in trying to say it turns over that many times. I'm not quite sure whether it would do it or not. I think that's a little bit presumptuous to say you had that great of a turnover.

RECOMMENDATION TO DROP \$55 MILLION LOAN TO CUBA

Let me ask you another question, whoever wants to answer this, about the \$55 million that we were talking about that Mexico is lending to Cuba. Who has the power to reduce this Eximbank loan? Do you, Mr. Draper?

Mr. DRAPER. The power to do what?

Senator MATTINGLY. Reduce the loan to Mexico, the Eximbank, the \$500 million. Who has the authority?

Mr. DRAPER. It is in the law, first of all.

Senator MATTINGLY. Who has the power to reduce this amount?

Mr. DRAPER. It's our bank.

Senator MATTINGLY. Who recommends the \$500 million?

Mr. DRAPER. You mean once we make the decision to make this facility available and the Mexicans have \$500 million of credit from the commercial banks that they choose in this country? We already have a facility set up with Mexico.

Senator MATTINGLY. All I'm asking you is who has the authority in this country. You? In other words, you have the authority. You're the one.

Mr. DRAPER. Are you saying before or after we've approved this facility?

Senator MATTINGLY. Right now you have \$500 million that you're looking for.

Mr. DRAPER. That's right. Our Board.

Senator MATTINGLY. Your Board. And you're the head of that Board, right?

Mr. DRAPER. Yes.

Senator MATTINGLY. What would it take to reduce that by \$55 million? Would you have to recall the Board to reduce it down to \$445 million?

Mr. DRAPER. Yes, that would be our Board.

Senator MATTINGLY. Very good. In other words your Board could do that, right? You could call this Board meeting probably before September 30 if you had to?

Mr. DRAPER. That's right.

Senator MATTINGLY. My concern is that it's very difficult to say when you get the money in the Bank now it's your money, but when Mexico gets the money in the Bank and they put it all together it's sort of hard to tell the American dollars from some other dollars. And I just wondered if anybody approached you with that yet, possibly reducing that.

Mr. DRAPER. No, they haven't.

Senator MATTINGLY. Would you consider that? Would you consider that recommendation?

Mr. DRAPER. We would consider anything that you people recommend to us.

Senator MATTINGLY. Great. Consider that a recommendation. [Laughter.]

I don't know about anybody else. I'm willing to do this for Mexico, but I'm not willing to help them put money in the Bank and then turn around and give it to Cuba. I don't think we're in the business of wanting to extend credit that way. I will as soon as possible try to figure out how to make a recommendation to you to reduce that by that amount of money.

Mr. DRAPER. You do understand that the Eximbank doesn't make a loan to Mexico, though. We are just guaranteeing, and I would expect we will not lose a penny on any of this.

Senator MATTINGLY. I know that. But I just like you to guarantee \$445 million instead of \$500 million.

Mr. DRAPER. I hear you.

Senator MATTINGLY. You are also providing a list to us of all those exports and the companies. I believe you made that comment, didn't you? Somebody did.

Mr. DRAPER. Yes.

Senator HEINZ. Senator Mattingly, just so I understand Mr. Draper's reply to what I think your question is, Are you saying, Mr. Draper, that if Senator Mattingly were to offer an amendment on the Senate floor to reduce your authority for Mexico from \$500 million to \$445 million you would support that?

Mr. DRAPER. Well, no, Senator. The process is that on the 30th of this month we will have another Board meeting, after having talked it over with you, and I said that anything that any of you recommend we will consider.

Senator MATTINGLY. If you could make that recommendation to this committee, we would need that recommendation to go to the floor of the Senate. Would you be supportive of that? Will you support that? And if you say no, why not?

Mr. DRAPER. Well, I have to say no. I really would prefer to go for the full \$500 million, and the reason for that is—

Senator HEINZ. It looks like you have a chance to make your amendment after all.

I'm trying to make sure you two really understand each other. I urge you to consider Senator Mattingly's request.

Senator MATTINGLY. I think that we need to have some sort of an agreement on this. I would hope that Senator Proxmire and Senator Heinz would also support me in this effort. But we'll see later.

Let me ask you this one quick question.

What are the total imports that Brazil has each year? Do you know?

Mr. LELAND. 16 billion dollars' worth of imports, of which about \$8 to \$9 billion are nonoil.

Senator MATTINGLY. OK, and therefore, we are talking about \$1½ billion for them to buy, which would be roughly 10 percent, is that right?

Mr. LELAND. Pretty close.

Senator MATTINGLY. So what we are talking about is rather significant, I think.

And how about Mexico? A great deal more than that?

Senator HEINZ. It used to be.

Mr. LELAND. Mexico went down. It has dropped so precipitously it is hard to estimate what it is right now.

Mr. DRAPER. I have the numbers here.

Mexico imported in 1983, \$10.8 billion, and that was down from \$14.5 billion in 1982. That was down from \$24 billion in 1981.

Senator MATTINGLY. This represents about 5 percent?

You know, I'm a proponent of the Eximbank, but I just think that we need to, as I said in the beginning, be sure the question is whether we have responsible lending here, and I want to make sure that it is responsible. That is the reason why I am talking about eliminating \$55 million that Mexico is going to get.

Thank you, Mr. Chairman.

Senator HEINZ. One observation I would make with respect to Senator Proxmire's line of inquiry, going back to section 2(b)(3), is

that on the one hand section 2(b)(3) says, notify us if it is over \$100,000 and it is a combination.

Mr. DRAPER. \$100 million.

Senator HEINZ. Excuse me, \$100 million. I forgot all about those decimal points.

In a sense you have done that, you have notified us.

Mr. DRAPER. Right.

Senator HEINZ. You may change your mind as to whether you should have or not, but you have notified us. [Laughter.]

AMENDMENT SHOWING CONGRESS SUPPORT OF THESE TWO FACILITIES

On the other hand, obviously you don't know what exports are going to be made. So this has a catch-22 here. In a sense, you are damned if you don't notify the committee that you are planning this facility. On the other hand, because of the nature of the facility, the facility not having been specifically mentioned in the legislation, you cannot possibly comply with part A of section 2(b)(3), which says give us a description. You don't know.

And that seems to me is the nub of the disagreement that you and Senator Proxmire seemed to be having.

I would submit that we could argue it for 100 years and never come to a conclusion about it because this section deals with apples and oranges and you are dealing with oranges and pears.

That is an observation.

It suggests to me that the best way perhaps to proceed is to recognize that this is a new kind of creature. We have not, to my knowledge, had facilities requested of the Eximbank, even though there is precedent for the Eximbank supporting U.S. foreign policy objectives and, of course, Lord help us if it should work contrary to U.S. foreign policy objectives.

So I would wonder, Mr. Draper, Mr. Olmer, Mr. Leland, whether you would object to an amendment that had as its principal character identifying that this is a different creature, and that the Congress was on record in support of the establishment of these two facilities for the purposes here described.

Mr. DRAPER. Of course, I don't really buy that it is a different creature.

Senator HEINZ. Well, if it is not, if you maintain it is the same, then you have to comply with the law, and you can't.

I think Senator Proxmire has established the fact that you can't describe what you are asking for, and I understand why you can't. I am not saying you did anything wrong. It is impossible for you to do it. But I would submit that because you can't do it clearly there is a difference.

Mr. DRAPER. Yes, but he is contending that. For example, would you read the section where it refers to insurance? Because that is what this is. This is not a loan or a financial guarantee in the sense of project financing, which is what the law really is talking about in that section that he is referring to.

So that is why we contend that this is not a different creature. This is an insurance policy. It is a little larger, quite a bit larger, than the average.

Senator HEINZ. Well, I am looking for a way to solve the problem which I suggest you may have rather than to have a legal argument with either you or Senator Proxmire, and my question was would you be supportive of an amendment that would help us compose our differences here? Such an amendment might read something like this. You do understand I'm just making this up as I go along.

"Section 110. It is the policy of Congress that the Export-Import Bank of the United States is authorized to establish facilities consistent with guarantees, insurance, and extensions of credit for the support of export transactions to Brazil and Mexico in the aggregate amount of \$1.5 billion and \$500 million respectively that may be committed out of the programs authorized in fiscal 1983.

"Individual transactions made pursuant to this section shall be subject to the requirements of section 2(b)(3) of the Eximbank Act. None of these provisions shall be construed as a limitation on the power of the Bank under any other provisions of this act."

Mr. DRAPER. That is pretty good for making it up as you go along. [Laughter.]

Senator PROXMIRE. I think it is very important to recognize that the purpose of this is to make it 1984 instead of 1983.

The idea is we only have 2 weeks left and we would just rush all this in to take advantage of the fact that you have a surplus in the account. This would give the Congress an opportunity to approve this. And we would approve it. I would approve it, as would the chairman. And you'd have the opportunity to move ahead. But we would be in on the act.

Mr. DRAPER. And we would use up to \$2 billion of our authority for next year.

Senator PROXMIRE. Well, you might get \$2 billion more.

Mr. DRAPER. I would have to oppose that.

Senator HEINZ. You would support it if it were for 1983; you'd oppose it if it were for 1984; and if it tracked when you in fact made the commitments.

Mr. DRAPER. I think it is unnecessary. Let's put it that way. I wouldn't oppose it for 1983. It has already been set up.

You know, we have a lot of insurance policies that get drawn down later on. So they cross over fiscal years.

Senator HEINZ. Why shouldn't it reflect what you might call standard accounting principles, which is that the commitments when made will be reflected on the books then opened for 1983, between now and September 30, or 1984, or thereafter? What is wrong with that?

Senator PROXMIRE. That would make them honest.

Senator HEINZ. Yes.

Mr. DRAPER. Well, I think you are over my head. I just— [Laughter.]

Senator HEINZ. We know that's not the case.

Mr. DRAPER. No, I think the key point is that we believe that we have the authority, you've given us the authority once. Unfortunately, we have not been able to use the full \$9 billion guarantee authority that you gave us. We only asked for \$8 billion. But we would like to use it in the fiscal year 1983.

We have lots of authorizations that are made in 1 year and disbursed or used in another year.

Senator HEINZ. Do you understand that?

Senator PROXMIRE. I understood it, but I think that it should be in 1984 because if it is not in 1984, then, of course, the whole purpose of this was to give the Congress an opportunity to have a voice in this very important and major commitment as well.

Mr. DRAPER. Yes, but I thought you and I personally had a deal on the telephone, that I would give you until September 30 and we would have our Board meeting on September 30, which is an extension over what we thought the law called for if the law did apply.

Senator PROXMIRE. Well, I don't recall any firm commitment on the telephone.

Mr. DRAPER. I think you said give us until September 30, as I understood it.

Senator PROXMIRE. Well, you wanted to button this up before we even came back into session.

Mr. DRAPER. We just wanted to give you the normal review time, that is, what we thought is required in the act if it applied.

CHANGES IN EXIMBANK PROCEDURES SHOULD HAVE CONGRESS OK

Senator PROXMIRE. What I wanted was to hold this hearing, to have the committee understand what was going on, and then to make our decision. We didn't want to make any commitment whether we supported it or opposed it.

Senator HEINZ. We wanted this to be a one-way street, you understand.

Mr. LELAND. It seems to me that one thing is important, leaving aside the question as it was submitted to Congress: that is the size of these facilities. Normally one would not be trying to do the multilateral effort that we're trying to do in response to the problems of Brazil and Mexico. I know Senator Heinz and Senator Proxmire have discussed the IMF and they both support it. So I don't have to go through that. If it were not for the multilateral effort, then the Eximbank, I presume, would not have to set up anything special. They would have just financed transactions as they came to this Bank. They would have gone on financing. Then we would have said to Brazil, you just keep coming to Eximbank for support. None of the amounts that they are talking about, none of the individual sales are over \$100 million. They are all a series of sales. Eximbank's door would have been open, and Brazil would use it.

I don't think the Brazilians would have come in and said we want \$1.5 billion to set up for this purpose. The reason for reaching a \$1.5 billion facility was that we were beginning discussions to insure that commercial banks and other countries participated in making sure that the financing for Brazil made the program workable and made the financing repayable.

Therefore, Eximbank then set up this particular type of program because of the multilateral effort. To try to make it appear that the facility is unrelated to the multilateral effort or that this is something that is out of the ordinary for Eximbank is the problem in the discussion between yourselves and Mr. Bricker. There is nothing out of the ordinary for Eximbank to finance up to a billion

or a billion and half of trade to any country which they think has a reasonable ability to repay.

The only difference is that they set up the facility as a block to give us the ability to negotiate with our allies. Our allies have that ability to negotiate themselves, to commit their governments because they have a different sort of political system. Their Export-Import Bank, whether it be France or Germany, provides financing on a different basis. With our system, however, we had to do it this way.

Senator HEINZ. Please proceed, Senator Proxmire.

Senator PROXMIRE. Mr. Draper, why isn't this so-called loan facility really a budget device to permit the Eximbank to authorize \$2 billion on the fiscal year 1983 budget just before the budget expires on September 30, thereby allowing you to avoid having to draw on your fiscal year 1984 budget at the time the individual transactions were going to be approved? Due to the fact that these transactions will be approved in 1984, why shouldn't it carry that burden? Why shouldn't Congress consciously provide the funds if the Congress feels you should have those funds?

Mr. DRAPER. Well, as I say, we have a series of other insurance policies in a variety of amounts. I will give you a few examples.

Senator PROXMIRE. If those could be justified, before you go into them, Congress would provide for those, too.

This is one agency which, as you know, Congress is very generous to. After all, as you pointed out, you asked for \$8 billion and we gave you \$9 billion. More than you wanted.

Mr. DRAPER. Yes. We appreciated the generosity, too.

But I just would point out that we make these commitments available to Central Bank for Cooperatives for \$375 million; Citibank for some policies that they had for various countries, \$250 million; the Philadelphia Overseas Finance Co. for \$175 million; Caterpillar Tractor for \$250 million.

Sometimes they are approved, but they don't draw them down. They aren't all used within the fiscal year. It just happens that the Brazilian crisis came to a head this summer when Congress was on vacation, which is unfortunate, and we couldn't discuss it more thoroughly.

Senator PROXMIRE. But this is all a prospective guarantee. It is something that is going to happen in the future. They are policies that have been made. If you would explain this to the Congress, it seems to me the Congress, in view of our attitude toward Export-Import Bank, is going to give you what you want. But we ought to know what we are doing. It seems to this Senator you shouldn't be able to pick up guarantees that were simply lapsing.

I would just like to see us exert our jurisdiction.

Let me ask Mr. Olmer. I'm concerned with changing the nature of the Export-Import Bank for this program. Previously the purpose of the bank was to aid specific U.S. companies to export to countries where loan insurance or guarantees would aid the exporters. These were available companies who sell to many countries.

Now we seem to be tying our exports to specific countries, in this case Brazil and Mexico. Next year you might say that our \$9 billion loan guarantee authority will all be used in Mexico and Brazil.

Is not that a real change in the intent of Congress? What would prevent the Export-Import Bank from doing that?

Mr. OLMER. Well, Mr. Leland's carefully managed restoration and normality in the LDC debt problem should begin to take effect and there will not be a need for this kind of special effort.

The Mexico and Brazilian cases are just extraordinary, beyond the estimates most predicted 12 months ago, and we believe that dramatic and different steps are needed to try to repair the damage that has already been done to U.S. exports.

Senator PROXMIRE. I understand that. You answered a question earlier, asked by the chairman, I think his very first question, relating to whether this advances foreign policy or not.

It seems to me if that is the purpose of this kind of an operation shouldn't the Export-Import Bank operations be a direct loan or guarantee?

Mr. OLMER. Well, it will be. There is no blanket loan guarantee program per se. Each and every loan application will be scrutinized, not only by the U.S. bank but by the Mexican and Brazilian Governments for the prospects for payment.

Each and every individual transaction will be reviewed.

What we are trying to do is encourage the restoration of some confidence, confidence which has almost completely evaporated. People are just staying away. They are not using the traditional terms.

Senator PROXMIRE. Well, I don't want to argue with you about that. I see that this ought to be done. I just think it ought to be done in a way that brings Congress in on the act and not on the basis of kind of an afterthought.

Mr. OLMER. Senator, you asked a question that I think went to the prospects for doing something like this over the coming year with respect to another country.

Senator PROXMIRE. That is right.

Mr. OLMER. And we don't have any present intention of doing that, and I do not foresee any necessity in doing it, and certainly there will be no recommendations to do it in the absence of experience with these two instances.

PROGRAM ONLY APPLIES TO MEXICO AND BRAZIL

Senator PROXMIRE. Mr. Draper, you said in your August 17 letter that prior to utilization of the new insurance facilities certain conditions would have to be met to the satisfaction of the Eximbank, among which were the "other creditor nations who have made commitments to provide comparable financial support."

Can you tell us whether this is still a sine qua non to the implementation?

Mr. DRAPER. Yes, it definitely is.

Senator PROXMIRE. What other nations have we approached or will we approach?

Mr. DRAPER. I should turn that question over to Mr. Leland.

Senator PROXMIRE. Mr. Leland.

Mr. LELAND. Well, we have discussed it with several of our major trading partners. We have begun the discussions on how to share

the responsibility. There have been similar discussions within their own governments.

Senator PROXMIRE. If we go ahead and obligate all of this for 1983, what kind of leverage will we have on other countries to bring them in?

Mr. LELAND. It has been made quite clear to them that even the amount of \$1.5 billion is not necessarily the amount that would be used.

Senator PROXMIRE. That wasn't my question. How will we know they will come in?

Mr. LELAND. We won't, and we won't obligate it if they don't. The point was we had to have this amount available to set up the facility. It doesn't mean that Brazil could come in tomorrow and take \$1½ billion or Mexico, one-half of a billion dollars, and we would say nothing about it.

Senator PROXMIRE. Could you tell us how much you expect them to put up?

Mr. LELAND. I think that is a point we are negotiating now. All that has to do with the gap voted in the IMF program. We'd show whatever other sources of financing there would be. I would say you would be talking about \$2 billion or \$3 billion total.

Senator PROXMIRE. Brazil and Mexico are particularly important to us. Mexico is to us, and I am sure for Mexico. We are their biggest trading partner. It may be the same for Brazil. I'm not sure. But at any rate, they are very important to us.

These other countries, the other major countries, England and France and Germany and Japan, they may have their own debtor countries to be concerned about.

Will we have to extend the program to these other debtor countries?

Mr. LELAND. No. Brazil and Mexico are what are called extraordinary cases. They are the two largest debtors. Brazil has \$90 billion, Mexico about the same. While we account for 40 percent of Brazil's trade with major industrialized countries, we are still only 40 percent of their trade. Other major industrialized countries account for 60 percent of their trade.

Senator PROXMIRE. But after all, if we expect to bring other countries in, don't we have to pretty much internationalize this? If we bring other lending countries in, other major countries, other countries who will provide the credit, don't we have to expect that other debtor countries will come in, too?

Mr. LELAND. That there will be other requests from other countries to get in this?

Senator PROXMIRE. Yes.

Mr. LELAND. I don't think so. I think the situation of these two particular countries that are involved require a different type of action than other countries may require.

There are other countries that we have done that in.

You can talk about a Turkey where you needed a donors club at one point, where all the countries got together and actually gave money, because that was what was needed. Every country may have a different situation.

I would say that the rest of the world you are talking about has a very large stake in Brazil and Mexico. They are big trading part-

ners and big creditors. We are not asking them to do it because they would want to be nice to us. They likewise have an interest in doing it.

PROGRAM IS A BLANKET INSURANCE POLICY

Senator PROXMIRE. Mr. Draper, what kind of control will the Export-Import Bank retain over the approval of each individual transaction? You say in your statement that these transactions will be monitored. What does "monitored" mean?

Mr. DRAPER. Well, we will monitor as they are approved, as invoices are made out, as shipping papers are forwarded, and we will have access to those as we call for them.

Now, they usually come in at a time when a claim has been filed. There are thousands of transactions. We're talking about a lot of small companies that are exporting to a lot of small companies or large companies in Mexico and Brazil.

Senator PROXMIRE. Would you approve each one?

Mr. DRAPER. No. That's the point of this. That is the whole point. This is an insurance policy which we are offering as a blanket policy.

Senator PROXMIRE. So as soon as Brazil or Mexico get the money they will be making the decision as to which of their importers get this.

Mr. DRAPER. Yes. And the importers will decide what products they want to buy and our exporter salesmen will be out there saying we want to sell you a product, and the importers will say, yes, we want to buy that product, and then the importer says, yes, and I know there is a facility available because my Government has this facility with your banks. And then all they do is put it into action and their bank then or their Government-owned bank makes a call to the Chase Manhattan Bank or some other banker and says give them the money, and the banker in this country makes the loan available to the exporter, and the export goes forward, and we do not even know about it.

Senator PROXMIRE. Then that brings me to this question. It seems to me you just told me that the U.S. Government, once the insurance guarantees are given to the Governments of Brazil and Mexico, won't be involved in negotiating individual loans which we are giving or guaranteeing the banks.

In that case, is it not true that we will not even have a say what items would be imported if the loan guarantee were provided? If that is the case, does that make sense?

Mr. DRAPER. That is correct. And I think it does make sense because nothing is going forward now. I mean it is just shrinking to zero. And I think it makes sense to get them started.

Senator PROXMIRE. Is that still true of Mexico? Is it not starting to pick up now?

Mr. DRAPER. No. It's still shrinking. I think 1984 will be better than 1983, but it is still drying up. They have overreacted. They are way under the IMF requirements in imports, and that is hurting American exporters desperately.

Senator PROXMIRE. My time is up, Mr. Chairman.

Senator HEINZ. Senator Mattingly.

Senator MATTINGLY. Are there very many countries in Central America working the Eximbank?

Mr. DRAPER. We are open in very few countries in Central America.

Senator MATTINGLY. How about Honduras.

Mr. DRAPER. We are open in Honduras. We are working on a very modest line there.

Senator MATTINGLY. When do you think there will be some approval?

Mr. DRAPER. When?

Senator MATTINGLY. This year?

Mr. DRAPER. Yes.

Senator MATTINGLY. Are we talking about this fiscal year or this calendar year?

Mr. DRAPER. I think probably.

Senator MATTINGLY. This calendar year? [Laughter.]

Mr. DRAPER. Yes.

Senator MATTINGLY. Thank you.

Mr. DRAPER. But it won't be in a massive amount.

Senator HEINZ. Secretary Olmer, would it make any difference to my State or Senator Proxmire's State if these facilities did not go ahead? Do you have any list of exports that might be adversely affected by adverse legislation or an adverse action on these proposed facilities?

Mr. OLMER. I do not think there is any doubt that virtually every single State engaged in manufacturing and in agriculture has seen unemployment as a consequence of an inability to arrange for financing to Mexico and Brazil. Some States are more heavily impacted than others.

We have been in contact with our district commercial offices in many of the States and are beginning to acquire a list of manufacturers and sectors of the agricultural community, and I would like to provide that for the record as soon as it is complete.

I do not have a complete list now. I do know that in Wisconsin, particularly, there are at least two dozen companies that have said to us that have experienced varying degrees of difficulty in arranging financing on exports to both Mexico and Brazil.

Senator HEINZ. Two dozen just in Wisconsin alone? What a coincidence.

Mr. OLMER. Yes.

Senator HEINZ. I'm sure that list will grow.

ACCOUNTING YEAR OF THESE FACILITIES

Mr. Leland, one of the arguments that Mr. Draper and Senator Proxmire are having here is over accounting, as to when the guarantees and insurance will be logged into the books, against which fiscal year they will be logged. Does it trouble you at all that what I have proposed—I think more or less in the spirit of compromise—which is log them in when the commitments are made, whether it is in 1983 or in 1984, does that sound to you like the right approach to this, or do you have a point of view that it ought to be all in 1983?

Mr. LELAND. I think I would really defer to the Bank as to what their normal practice would be.

Senator HEINZ. Their normal practice is not to log things into a fiscal year in which they have made the commitment?

Mr. LELAND. We were, as I said, discussing with others the fact that we would provide \$1.5 billion. In order to encourage the support of other creditor nations, we wanted to notify them of our willingness to provide \$1.5 billion now. The Bank then notified Congress that they were going to use that amount of money. I don't think that was inappropriate. Likewise, if we had decided 3 months later, it would not be inappropriate to use 1984 money. But I don't think it was inappropriate for Eximbank to do that in that particular fashion.

Senator HEINZ. My question is, it has been my distinct impression that the Department of the Treasury has something to do with keeping the books, and so I didn't feel it was an unfair question directed at you, a representative of the national bookkeepers, namely the Treasury, as to whether you thought it was a reasonable position that we should recognize these commitments in the fiscal years in which they are made.

Mr. LELAND. We had discussed this with Eximbank, and it is their practice to log them in when the Board approves a facility. This was a Board approved facility, and that is when they logged it in.

I would also not argue against doing it by another method. You could certainly log these facilities by another method. You can do things by commitment. You can do them by disbursement. However, these methods make it much more complicated.

Senator HEINZ. A facility is not a commitment. It is a promise to make commitment up to a limit.

Mr. LELAND. I would say the authority should be logged when the Board of the Eximbank approves the authority. I would have thought it would have been wrong of the Board of the Eximbank to approve in 1983 money which isn't even yet appropriated in 1984.

Senator HEINZ. We may be on to a very good principal here. Doesn't the IRS report to the Treasury Department?

Mr. LELAND. I think it still does.

Senator HEINZ. If I promise that I will pay my State and local property taxes next year, can I deduct them against this year's income tax?

Mr. LELAND. No, you can't.

Senator HEINZ. Oh, shucks. But it seems to me that the analogy here is a fairly similar one. If we promise to make commitments next fiscal year, we could somehow take them as deductions this fiscal year. That is what I hear Chairman Draper proposing. And all he has done is to say I promise to make commitments sometime in the future.

Frankly, I've got to say, and I think this is part of Senator Proxmire's problem here, that that is a pretty strange way of keeping the Nation's books.

Secretary Olmer, do you want to get into this discussion.

Mr. OLMER. Well, I'm just enjoying being a sideline observer. [Laughter.]

But I would like to observe that the problem this facility is trying to correct occurred in 1983.

Senator HEINZ. I purchased my house in 1971. That's the problem. So what?

Mr. OLMER. And you've had a leaking roof ever since. [Laughter.]

Senator HEINZ. Is that all you want to say about this? [Laughter.]

Senator PROXMIRE, do you have anything further?

Senator PROXMIRE. Yes, I do have a few questions I would like to ask.

MONEY GOES TO PRIVATE COMPANIES TO HELP RESTORE TRADE

Mr. Olmer, is this another bailout for U.S. banks? The reason I ask that, I wonder to what extent these guarantees will really increase U.S. exports to Mexico and Brazil beyond what would occur anyway.

As you point out, U.S. exports have almost reached rock bottom. Certainly, the IMF and the banks of the two countries have an interest in seeing that they continue to import the goods for the needs of their own economic growth, their own exports. Therefore, it seems to me that the banks, working with the IMF, have an adequate incentive to provide the financing without a guarantee. To a large extent, guarantees by the Eximbank would simply take risk off the books of the banks and transfer it to the Eximbank—ultimately, of course, to the taxpayers.

What internal studies have there been made as far as you know to demonstrate that these guarantees really will increase U.S. exports above what would have otherwise occurred?

Mr. OLMER. Well, I cannot provide you with current studies. I can provide you or share with you a report of a trip made to several cities, particularly areas proximate to South America in the United States—Miami, California, and Texas.

A couple of points that I would like to make: No. 1, it was our position in the Commerce Department to argue strongly that any new facility such as the one we are proposing to create should not provide money for the central banks to disburse as they see fit.

It was our objective to see to the disbursement of these guarantees and, derivative therefrom, funds from private banks, go to private companies in Brazil and Mexico.

And the reason for that was principally, in our judgment, that if it was otherwise, there would be a high risk the money would be used for balance-of-payments financing, and it was our strong desire that this particular effort not be diverted to balance-of-payments financing, that it would go to private companies in the two most severely impacted developing countries.

And in the second place, what we are talking about is restoring some momentum to trade. It is, I think, our fondest expectation that this kind of a program will not have to go on for a substantial period of time. It is to provide some lubrication to the wheels of the international trade financing mechanism, and once that starts moving again, there should be no need for this facility.

But it is going to take some period of time. We want to do something now. We want to send people out into the communities of our principal exporters and let them know there is this evolving facili-

ty and to get them to use it hopefully on the shortest possible credit terms that they can manage, and once started, we believe it will put something in motion that will not require recourse to extraordinary facilities for more than a brief and short period of time.

Senator PROXMIRE. Do you think that this is necessary in addition to the IMF?

Mr. OLMER. Oh, absolutely. IMF, as I understand it, is for balance-of-payments financing. This is not for balance-of-payments financing; this is designed to get the banks back in.

Senator PROXMIRE. But the argument that was made for the IMF, especially in the hearings before the Foreign Relations Committee, was that far from bailing the banks out, it was baiting the banks in.

Mr. OLMER. Yes.

Senator PROXMIRE. It was mandating that if they provide the IMF assistance, the banks would match it in fact with a considerable effort.

Mr. OLMER. Yes.

Senator PROXMIRE. On the other hand, you have not made that—nobody has made that argument here. The banks will come in, of course, but they will come in on the basis of having the U.S. Government provide the guarantees.

Mr. OLMER. No; I did not make that clear. This \$1.5 billion for Brazil would be a part and parcel of a \$10 billion package, most of which comes from the commercial banks. So that it may be \$7 billion that will come from the commercial banks, unguaranteed.

Mr. LELAND. In addition to that, there is 10 billion dollars' worth of commercial bank trade credit which has to be maintained.

Senator PROXMIRE. Is that the same \$7 billion the IMF would—

Mr. LELAND. No. This is brandnew fresh money. They will have more money in Mexico and Brazil after these facilities, or they will not go into effect.

Senator PROXMIRE. Do you have the same conditions as the IMF has? Unguaranteed?

Mr. OLMER. Unguaranteed. Absolutely. This is exactly what the IMF is doing and we are just adding to the punch.

PROGRAM IS INCENTIVE FOR LENDING AND TRADE

Senator PROXMIRE. So you are telling us that in your judgment the banks, who are now very cautious about making loans to Brazil, will, if you come along with your funding, make unguaranteed loans in addition?

Mr. DRAPER. Correct.

Senator PROXMIRE. Have they given you indications that that is the case?

Mr. DRAPER. Yes.

Mr. LELAND. As I said earlier, you are talking about a fund program, in which case you are talking about the new financing needs of 1983 and 1984 being \$10 billion to \$11 billion, which need to be met through commercial bank loans, official export financing, and re-scheduling. Certainly the banks are aware of it. They are having

discussions about how to come up with that \$6-\$7 billion in new money.

Senator PROXMIRE. Well, as I understand it, the Assistant Secretary of Commerce admitted yesterday in testimony before the House Banking Committee that they do not expect the U.S. Eximbank program to provide \$2 billion in insurance and guarantees to Mexico and Brazil to solve their ability to finance imports. He said that hopefully it will provide an incentive for banks to increase their trade finance lending to a level that will stabilize LDC economies. The same thing you are telling me now.

On what is that hope based? If the U.S. banks are reluctant to lend to a Mexican importer now, why would it be less reluctant to do so after this program is in effect if this loan is not covered by the program guarantee?

Mr. LELAND. I think if a country can maintain a sufficient level of imports which it needs both to survive and to provide exports, to provide finance, then it can survive. That's an adjustment process which Mexico is a year into and Brazil is also several months into. Therefore, once a country embarks on an adjustment program, banks are willing to lend it.

Part of this is the process of getting that to happen. That's what the Eximbank effort is about.

Two billion dollars' worth of imports is not enough for Brazil or for Mexico. But the question has been raised that if the Governments are in for a certain amount, are you going to have a certain amount of contraction for some banks? There were certain banks that don't want to be involved no matter how good the risk is. That's because of the conditions, and the atmosphere. The object of our approach, however, is to make sure everybody is in there.

As Mr. Olmer said, the hope is that after 1 year or so you get back to some sort of a normalcy where the financing is in the bank.

Mr. DRAPER. But the real answer is they are already in there. It's like the famous old story: If you've got a small loan outstanding, the bank is your banker; but if it's a big loan, they become your partner. In this case they want to see this thing worked out properly with IMF support, with Eximbank support, and with their own additional funds in order to get Brazil cured so that they get back the funds that they have got exposed there.

It's a workout situation like any corporation in this country that runs into problems. They are short-term problems, hopefully, and then in the long run with a little bit more money and a little better management, they might pull it out.

Senator PROXMIRE. That's my point, Mr. Draper, the banks already have a stake. Why shouldn't it be sufficient?

Finally, Mr. Leland, on the August 31 letter to you and the other witnesses in which you were asked several other specific questions about the proposed facility, I understand that you and the other witnesses answered those questions at yesterday's hearings. I would like to associate myself with those several questions and ask you to send me written responses as soon as you possibly can.

Mr. LELAND. Of course, Senator.

Information subsequently supplied for the record follows:



PRESIDENT
AND
CHAIRMAN

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

CABLE ADDRESS "EXIMBANK"
TELEX 88-481

Dear Mr. Chairman:

On behalf of both the Treasury Department and Eximbank, I enclose answers to the questions concerning the proposed insurance and guarantee facilities for Brazil and Mexico set forth in your letter of August 31, 1983. We were pleased to have the opportunity to discuss this proposal at your hearing. Please let me know if you have any further questions.

Sincerely,

William H. Draper III

Enclosure

The Honorable
Stephen L. Neal
Chairman, Subcommittee on International
Trade, Investment and Monetary Policy
Committee on Banking, Finance and Urban
Affairs
U.S. House of Representatives
Washington, D.C. 20515

September 21, 1983

ANSWERS TO CHAIRMAN NEAL'S QUESTIONS
CONCERNING EXIMBANK'S PROPOSED INSURANCE AND GUARANTEE
FACILITIES FOR BRAZIL AND MEXICO

1. In what sense are these funds really obligated by approval of the Facilities?

ANSWER: The insurance and guarantees which make up the Facilities are obligated at the time of approval of the Facilities by the Board of Directors.

2. Are the Facilities a way of getting rid of unutilized budget authority before the end of FY 1983?

ANSWER: Our primary purpose is to assist U.S. exports to Brazil and Mexico by providing an immediately available package of trade financing. Since Eximbank has room under its FY 1983 guarantee and insurance program authority to accomplish this objective, we believe that it is appropriate to authorize the Facilities in this year in order to make the most effective use of the Bank's FY 1983 and FY 1984 authority.

3. Will individual transactions require approval by Exim's Board?

ANSWER: No, there will be thousands of shipments under our regular insurance and guarantee programs. Eligible products and appropriate terms will be set in advance.

4. Why didn't you follow your normal procedures of authorizing guarantees and insurance for banks and exporters, as part of the regular flow of applications?

ANSWER: We wanted to show our willingness to participate in a national and international effort and to establish the most efficient procedure for utilizing our insurance and guarantees for the benefit of U.S. exporters.

5. In what way do the Facilities make it more attractive to Brazil and Mexico to avail themselves of your guarantees?

ANSWER: The Facilities will provide a secure source of financing upon which U.S. exporters and Mexican and Brazilian importers will be able to rely. Approval of Facilities of this magnitude will help restore the confidence of the international financial community, promote additional commercial bank lending, and facilitate the adjustment efforts of Brazil and Mexico. The Facilities will help stimulate a multilateral effort, including both commercial banks and other official creditors, to respond to the current liquidity problems of Brazil and Mexico.

6. Why couldn't Brazil, or exporters to Brazil, simply tap your existing programs?

ANSWER: Eximbank is open for new business in Brazil, but it was felt that an additional effort was called for in light of the present circumstances.

7. What interest rates and fees will commercial banks be allowed to charge on loans guaranteed or insured under the Facilities?

ANSWER: The Bank does not impose any limitation on the amount of interest or fees which commercial banks may charge. However, Eximbank's coverage of the interest rate under the insurance and guarantee programs is limited to the prime rate on short-term transactions and the Treasury bill rate plus one percent on medium-term transactions. Based on our experience in similar situations in the past, the competition of the market place will place a cap on the interest and fees to be charged. It is likely that Eximbank's insurance and guarantee coverage will go to individual commercial banks or groups of banks. These banks will be chosen by the governments of Brazil and Mexico through a competitive process. Presumably, these governments will designate banks which offer the lowest pricing.

8. What fees will Eximbank earn?

ANSWER: Eximbank charges front-end fees based on the invoice value of the shipment, for short-term up to 180 days, 1.13 percent, and for medium-term from 181 days to 5 years, up to 3.06 percent.

9. Concerning the first condition precedent, that Brazil and Mexico must be in compliance with an IMF Extended Fund Facility (EFF) --

9A. Will the Facilities be cut off if an IMF performance criterion is missed?

ANSWER: These facilities must be part of a cohesive overall program including appropriate economic adjustment by the nations involved. Compliance with IMF programs helps achieve this goal. If performance criteria are missed, the situation will be examined closely by Treasury and Eximbank. We would anticipate suspension of new guarantees and insurance under the Facilities if Brazil or Mexico fall substantively out of compliance.

9B. Will they lapse when the EFF lapses?

ANSWER: The facilities have an availability date of September 30, 1984, while the EFF's have a 3 year term. In the case of Brazil, the EFF expires in February 1986, and for Mexico, on December 1985.

9C. Will normal insurance and guarantees be approved outside the facilities?

ANSWER: We would expect short- and medium-term exports to be covered under the Facilities, but some transactions could be approved outside the Facilities.

10. Concerning the second condition, that commercial banks shall have established an additional financing program--

10A. What banks are included here?

ANSWER: In the United States, all major commercial banks have exposure in Mexico and Brazil and would be participating in any new financing. It is our understanding that in

the case of Brazil, as in the case of Mexico, as broad a base as possible will be sought for the anticipated syndication. This will probably mean an attempt to syndicate the loan among some 800 banks.

10B. Would there be any linkage to bank participation in the Facilities or to commercial banks as a whole?

ANSWER: The selection of commercial banks to participate will be made by the governments of Brazil and Mexico. It is likely that there will be a high correlation between banks providing new financing and those funding the Facilities.

10C. How much additional financing is covered here?

ANSWER: In the case of Brazil, banks must (a) reschedule the \$5.3 billion coming due in 1984 as they did for the \$4.8 billion coming due in 1983, (b) put the more than \$10 billion in existing trade finance and \$6 billion in interbank deposits on a committed basis, and (c) undertake to provide Brazil with additional net finance amounting to \$6-8 billion. In the case of Mexico, commercial banks would have to complete the rescheduling of 1983 and 1984 maturities and provide \$2 to \$4 billion, as appropriate, in new money next year.

10D. Does additional financing include rescheduled loans?

ANSWER: The additional financing is over and above rescheduled amounts, as mentioned in 10C above.

10E. How will you check compliance with this provision?

ANSWER: We would expect that, like the medium-term bank syndication, banks would formally agree to reschedule principal coming due in 1984 for Brazil. This would be analogous to Projects I and II undertaken for Brazil earlier this year. In addition, we would anticipate formal, signed agreements by banks with Brazil to maintain short-term trade finance and interbank deposits at historical levels.

11. Concerning the third condition, that other creditor nations shall have made commitments to provide comparable financial support--

11A. What nations are included and how much will be provided by each?

ANSWER: In the case of Brazil, Treasury has begun discussions with the other industrialized countries. We do not know at this time what the amounts will be from each but the total is expected to be \$1-2 billion. Participation by Japan, Germany, France, the U.K. and Canada is expected. We believe the balance should be provided by Brazil's other trading partners. In the case of Mexico, participation by Japan, Germany, France, and the U.K. has already been arranged.

11B. Is this just for Brazil and Mexico, or will other debtor countries of interest to those creditor countries also be included?

ANSWER: We are only looking at Brazil and Mexico.

11C. What responses have you had from other creditor countries?

ANSWER: We do not, at this time, have firm commitments from any of Brazil's other major creditor countries. We are, however, continuing to discuss the issue at length with our allies.

12. Why are more restrictive conditions being imposed in connection with the Facilities than are normally required under the Bank's programs?

ANSWER: These conditions are appropriate given the size of the Facilities. The basic thrust of the conditions is to ensure that the entire financial community shares the burden of assisting Brazil and Mexico. Compliance with an IMF program indicates that the debtor country is undertaking a major effort to adjust and work its way out of its debt problem. Parallel actions by commercial banks and other governments will provide further evidence of international confidence that the debtor country will solve its liquidity problems.

13. Won't the effect of the Facilities simply be to shift credit risks on loans to Brazil and Mexico from the commercial banks to Eximbank?

ANSWER: NO. We estimate that Brazil's financing requirements for the balance of 1983 and through 1984 will be \$11 billion after counting the anticipated drawings from the IMF (\$1.6 billion in 1984) and a projected

private bank rescheduling of \$5.3 billion for 1984 following the rescheduling of \$4.8 billion this year. Counting reschedulings, this year's syndicated loan of \$4.4 billion, and anticipated new bank finance of \$7 billion, banks will have provided \$21.5 billion during 1983 and 1984 to Brazil. The comparable number for official creditors is a rescheduling worth \$1.9 billion and anticipated trade finance of \$2-3 billion.

14. Given Brazil's problem of servicing existing debt, how have you been able to meet the statutory requirement of reasonable assurance of repayment?

ANSWER: Compliance with the IMF program, along with the joint financing effort by private and public creditors, will result in country conditions offering reasonable assurance of repayment. The full faith and credit obligation of the Government of Brazil is further evidence of "reasonable assurance of repayment."

15. What are the balance of payments projections for Brazil and Mexico?

ANSWER: Treasury's projections appear in the attached Exhibit.

16. Assume that Eximbank's Facility would not be available, so that Brazil would suffer a shortfall from its projected requirements for new credit. Where would that shortfall most likely be felt?

ANSWER: If the requested Facility is not approved, it is

unlikely that similar programs could be arranged with other governments, leaving an unfinanced gap of \$2 billion or more. Banks would probably not be able to syndicate a major loan for Brazil under these circumstances, and the overall financing shortfall could become \$3 billion or more. The only way to eliminate a shortfall of that magnitude would be for Brazil to undertake further drastic cuts in payments for imports and debt service. While imports could, in theory, be cut by this amount, this would probably force an economic contraction in excess of 10 percent in 1984 with unemployment rising to 15 percent. An economic contraction of this magnitude would have even more serious consequences for U.S. exports.

17. Since Brazil earns a trade surplus, any credit shortfall would likely be borne by other components in Brazil's balance of payments, notably its debt servicing and reserve accumulation. As a result, why won't the effect of the Facility for Brazil be to relieve the pressure on commercial banks to reschedule and to provide new money.

ANSWER: The second condition requires substantial participation by the commercial banks in the form of rescheduling, the loan syndication, and trade finance. See answers to questions 10, 13, and 16 above.

18. How is all of this going to increase U.S. exports to Brazil?

ANSWER: Our goal is to halt or reverse the current cutbacks in

U.S. exports to Brazil. For example, in the first half of 1983, U.S. exports to Brazil fell by 30 percent from the same period in 1982. Without the total financial package, the Brazilian recession will deepen and Brazil will become an even smaller market for U.S. exports. It is this further drop in U.S. exports we are trying to avoid.

Response from Treasury Department

What is the meaning of the last minute changes in Treasury's testimony regarding the conditions of these facilities?

ANSWER: The second version of the testimony was sent in error. The first version submitted and the version used in the Senate Banking Committee hearings on September 14, 1983 is the correct version. The correct sentence reads as follows: "Prior to any use of the facilities, the following conditions will have to be met: (1) the country shall be in compliance with its International Monetary Fund Extended Fund Facility; (2) commercial banks shall have established an additional financing program for the recipient; and (3) other creditor nations shall have made commitments to provide comparable financial support."

U.S. Treasury Preliminary Estimates
Brazil

	(\$ billions)	
	1983	1984
A. CURRENT ACCOUNT		
1. Exports	+ 22.3	+ 25.0
2. Imports	- 15.7	- 16.5
TRADE BALANCE	+ 6.6	+ 8.5
3. Interest Payments	- 9.9	- 10.6
4. Other	- 4.1	- 3.8
TOTAL	- 7.4	- 5.9
B. CAPITAL ACCOUNT		
1. Bank Credit (Net)	- 0.8	- 5.0
a. Amortization (- 4.4)		(- 5.0)
b. New Credit (Net) (+ 3.6)		(0)
2. Loans from Int. Org. (not IMF) & governments	+ 1.0	+ 1.3
3. Other	- 1.7	- 1.4
TOTAL	- 1.5	- 5.1
C. Financing Required for Targeted Increase in Reserves	- 1.4	- 3.2
FINANCING REQUIRED FOR A + B + C	- 10.3	- 14.2
D. FINANCING ALREADY ARRANGED or PLANNED		
1. Gold Sales	+ 0.5	0.5
2. IMF	+ 2.0	1.6
3. Refinancing of Bank & Suppliers Credit	+ 4.8	5.4
4. Other	- 1.3	
TOTAL	+ 6.0	+ 7.5
E. BALANCE YET TO BE FINANCED (A + B + C + D)	4.3	6.7
	\$ 10 - 11 billion "gap" for 1983-84	

Estimates for Filling
this gap:

"Paris Club" Rescheduling of Official Debt	about	2
EXIM & Other Export Credit Agencies	about	2 - 2.5
New Credit from Banks	about	6 - 8

MEXICO: BALANCE OF PAYMENTS
(\$ millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Exports</u>	<u>20927</u>	<u>22224</u>	<u>21890</u>	<u>23330</u>
Petroleum and derivatives	14565	16477	15700	16230
Gold and silver	511	386	400	400
In-bond	976	843	1000	1200
Other	4875	4518	4790	5500
<u>Imports</u>	<u>-24034</u>	<u>-14517</u>	<u>-10800</u>	<u>-14100</u>
Gold and silver	-104	-95	-75	-100
Merchandise	-23930	-14442	-10725	-14000
<u>Trade Balance</u>	<u>-3107</u>	<u>7708</u>	<u>11090</u>	<u>9230</u>
<u>Service Exports</u>	<u>9538</u>	<u>8140</u>	<u>7235</u>	<u>8470</u>
Transportation	476	413	510	585
Tourism	1760	1406	1700	1950
Frontier transactions	4554	3968	3200	3685
Investment income	1386	1247	900	1200
Other	1362	1106	925	1050
<u>Service Imports</u>	<u>-20630</u>	<u>-19086</u>	<u>-16900</u>	<u>-17775</u>
Freight and insurance	-1124	-620	-480	-630
Transportation	-1265	-1205	-1100	-1200
Tourism	-1571	-788	-500	-575
Frontier transactions	-4584	-3577	-3200	-3520
Profit remittances	-551	-526	-320	-400
Interest	-8405	-10879	-10000	-10000
Reinvested profits			-300	-400
Other	-3130	-1491	-1000	-1050
<u>Net Services</u>	<u>-11092</u>	<u>-10946</u>	<u>-9665</u>	<u>-9310</u>
Current Account	-14199	-3238	1425	-75
Transfers	289	281	300	300
Current Account	<u>-13910</u>	<u>-2957</u>	<u>1725</u>	<u>225</u>

Senator PROXMIRE. Thank you very much, Mr. Chairman. I can't tell you how much I appreciate, Chairman Heinz, your attempt to work out some kind of a compromise on this. I think these are three very fine witnesses and very fine public servants. But I do hope we can somehow arrive at an understanding to meet this charge.

Senator HEINZ. Senator Proxmire, flattery will definitely get you someplace.

The hearing is adjourned.

[Whereupon at 4:36 p.m., the hearing was adjourned.]

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